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Enterprise Accounting and its Context of Operation: The Case of Libya

By

Mohamed Mabruk Buzied

A thesis submitted to the University of Durham
for the Degree of Doctor of Philosophy

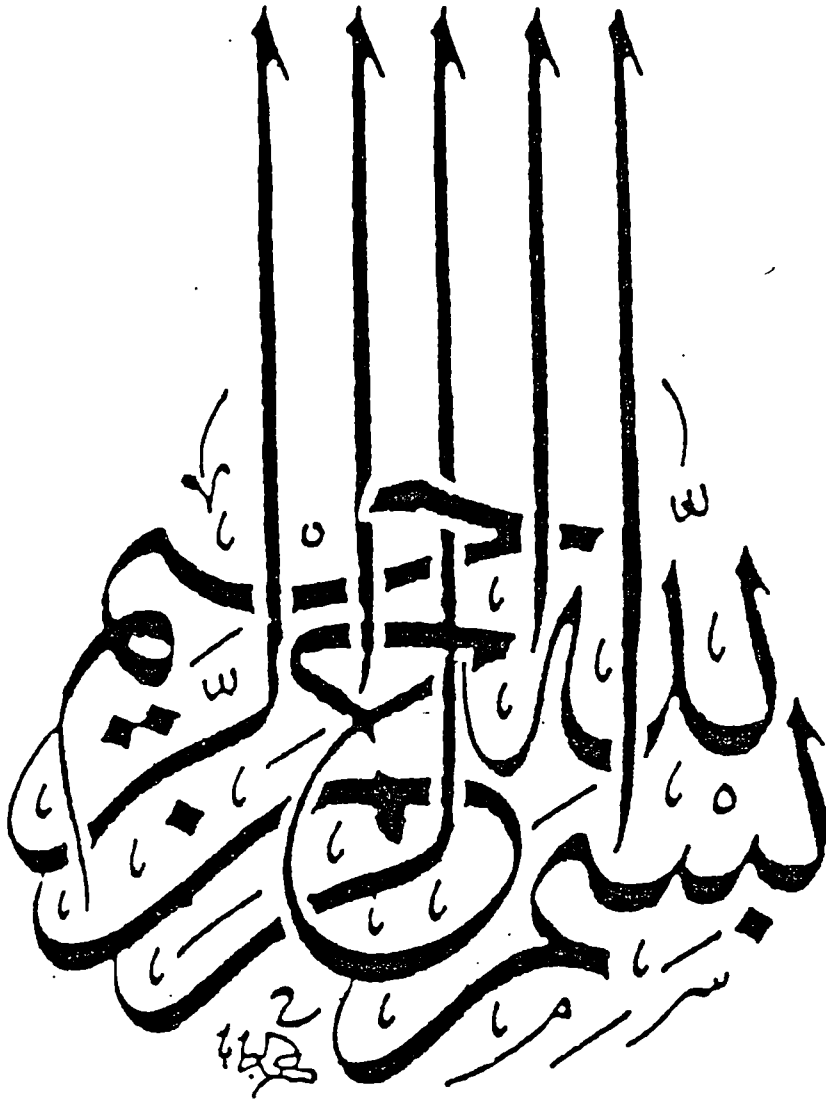
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1998



21 JUN 1999



*In the name of Allah (God),
Most Gracious, Most Merciful.*

Declaration

This is to certify that the work submitted in this thesis is entirely my own work. No part of this work has been accepted for any other degree.

Mohamed Buzied

**Dedication for
My Parents
and
Daughters
Howaida and Al-Batool**

Abstract

This thesis seeks to provide an initial understanding of the likely reason(s) for the inadequate role of accounting in Libya (particularly enterprise accounting) and ways of improvement. The study comprises three aims: firstly, to investigate the main factors which are likely to have shaped the current accounting systems in Libya; secondly, to contrast the traditional accounting system embodied in practice and the underlying environmental context, in particular, culture. This is to assess the relationship between them and provide a basis for comparing the hypothetical model of Libyan accounting derived from the accounting literature, in particular Gray's (1988) theory, with the current accounting system. The final aim is to investigate the extent to which Perera's (1989, p. 150) claim that "... given the circumstances prevailing in developing countries, a system of uniform accounting may be the only viable alternative" is true of Libya.

To achieve the study aims and collect the data required, Libya was taken as a case study which draws upon different sources of information such as documents, questionnaires and personal interviews.

The study revealed that accounting in Libya has not developed in response to its environmental needs, but was rather found to be a derivative of the UK and US models. No evidence was found of any attempt to adapt or develop the adopted accounting systems. Accounting in Libya is mainly oriented toward financial accounting and to serving the needs of a non-existent set of users (investors, creditors). Libya's present accounting system and regulatory approach have not been adapted to achieve relevance but simply imposed and inherited from previous colonial powers. The function of accounting in fostering economic development appears to be inhibited by the existing accounting practices within Libyan enterprises. Accounting has characteristics similar to a process of completing forms dictated by higher authorities, resulting in a weak foundation to the macro level requirements. Two key factors appear the most likely in explaining the limited role of accounting. One is the absence of any agreed accounting standards and a general framework for an accounting system in Libya, and the other is the inconsistency between the adopted accounting system and the country's environmental context, including culture.

Although Libya is seen as having adopted the Anglo-Saxon accounting system, the findings of this study tend to support Gray's hypotheses. The underlying Libyan accounting values have been pulled in line with statutory control, uniformity, conservatism, and secrecy. In many cases there is a significant contrast between Libyan cultural value dimensions and the nature of the Anglo-Saxon accounting system. The principal environmental factors, including culture, were identified as closer to those of France than the UK. Libyan environmental factors, including culture, indicate that the likely nature of the system should display characteristics that would lead to it being classified within the "macro" accounting group.

Thus, the application of a uniform accounting approach is considered in terms of its relevance to Libya. The uniform accounting approach seems to provide a viable alternative for Libya that is worthy of further investigation.

Acknowledgements

First of all, I wish to express my deepest gratitude to Allah who gave me the knowledge, effort, time and health to accomplish this thesis. In the process of researching and writing this thesis, I have received help from numerous people without whom this work could not have been completed. Mentioning them here is the least I can do to express my indebtedness to them.

I am very grateful to my supervisor, Professor Rob Dixon, who showed great understanding and co-operation in working with me. I wish to express my thanks to Prof R Scapens of Manchester University and Prof Tim Niblock of Durham University for their valuable time in reading through some of this thesis and for the comments and suggestions which have undoubtedly enriched my thesis. John Laidler and Tony Miller of the University of Newcastle and Dr. Claire Marston of Northumbria University deserve my special thanks for their comments. Thanks also to Anne Woodhead for discussing and clarifying certain ideas.

Special thanks are also due to Dr. D. Byrne in the Sociology Department for his advice in the research methodology. I would also like to thank my friend Ahmed Bait-Elmal, Andrea and all other fellow research students, Dorothy, Xu Qi, Zaixin Ma, Stefan and Rosa for sharing my experience of doctoral research. Debbie and Colin in Business School Library deserve my best thanks for their help.

For offering constructive guidance and inspiration, I would like to thank all the anonymous participants in my study including company managers, accountants, and public accountants. Special thanks go to my friend Issa in the Libyan Institute of Public Control and Ibrahim Aomar who helped me to make all the necessary arrangements for interviews and questionnaire distribution.

Finally, I express deep gratitude to all members of my family, especially my parents, my sister Zohara and my brothers, Twofik, Omar and Abidallah, for their continuous prayers, encouragement and unlimited moral support which has sustained me throughout periods of frustration and given me comfort during my time away from home.

Lastly, I owe my special thanks to my wife Hamida and my beautiful and sweet daughters Howaida and Al-Batool for their constant patience and support, and for being my rock during the difficult times.

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Chapter One- Context of the Study: An Overview

1.1- Background of the problem

“It would be admirable if we could lift an American, British, French, German, or Japanese set of accounts and feel confident that, using our own background of accounting principles, we should be equally at home in understanding them all.” (McComb, 1979 , p. 2).

The history of accounting indicates that the practice of the art of accounting was one of the earliest means invented by human beings to steward and administer their activities. According to Zimmerman (1984, p. 4), by today’s standards, those functions were relatively simple but truly essential. As the economic activities, transactions and the needs of society grew, accounting was forced to develop because at every stage of the evolution of human society, some form of accounting became necessary for the administration of economic activity (Bailey, 1984, p. 40). This development was marked by the invention of the double-entry book-keeping system which constitutes the cornerstone of modern accounting (Hayashi, 1989) and has also provided modern accounting with similar simple beginnings (Hatfield 1966, p. 170).

After the industrial revolution in Europe, accounting statements became widely used as the main means of providing and distributing financial information about economic entities to different users, mainly investors. The increasing concern about the methods by which this information had been generated, has led to the perception of the need for a general framework of accounting which includes issues of regulations and standardisation (see Taylor and Turley, 1986). Bloom and Naciri (1989, p. 71) argue that accounting standards are designed to achieve uniformity and comparability in financial reporting.

Accounting researchers have argued that accounting, throughout its history, has been responsive to the impact of primary forces (economic and political) in various regional and national arenas (Zimmerman, 1984, p. 4). This responsiveness has led approaches to the regulation and development of accounting in different arenas, to vary in accordance with these primary forces in each country. Accounting literature indicates that accounting can be broadly classified on the basis of regulatory systems into two distinct

approaches: the self-regulation and the regulatory approaches (see Taylor and Turley, 1986; Puxty et al, 1987; Mueller et al, 1987). Accounting systems under any approach are not identical, nonetheless, the self-regulation approach is mainly implemented in Anglo-Saxon countries such as the UK and US, whereas the regulatory approach is adopted by most of the continental countries such as France and Germany. This has given rise to the use of the terms 'Anglo Saxon approach' and 'non-Anglo Saxon' approach'. The former is closely associated with the needs of sophisticated capital markets whilst the latter approach reflects a broader set of users' needs which may require greater social information.

The practice of modern accounting and the development of its regulatory approaches have been closely interwoven with the political and economic developments mainly in what are known now as developed countries (see Zimmerman, 1984). Despite this, studies of the existing accounting system in many developing countries (e.g. Seiler, 1966; Enthoven, 1977; Samuels and Oliga, 1982; Wallace, 1993) reveal that they are largely *extensions* of those in developed countries. For instance Samuels and Oliga (1982, p. 71) state

“An examination of the sources of existing accounting systems in most developing countries reveals that those systems were for the most part either imposed by powerful foreign investors or extended from the home to the host countries through the influence of multinational companies, foreign aid and education.”

Just as the accounting system of developed countries can be classified into Anglo-Saxon and non-Anglo-Saxon approaches, so can the accounting system inherited by developing countries (Wallace, 1993). Many reasons have been given for this, not least, the fact that most developing countries were subjected to long periods of colonisation. The colonisation process brought with it the developed countries' processes of administering and controlling their affairs through a variety of mechanisms, including accounting systems.

Many developing countries experienced economic problems after independence and they have been continuously striving to improve the allocation of their scarce human, financial, and material resources in an attempt to achieve sustained economic growth

(Mirghani, 1982). The success or otherwise of these attempts relies on many factors; one significant factor being the availability of relevant information and appropriate information systems that would provide timely, accurate and reliable information (Ibid). Seiler (1966) also related the strength and extent of a nation's information system largely to the rate at which economic development progresses.

The lack of information provided by accounting systems in these countries is frequently considered as one of the most significant contributory factors to the persistence of economic problems (Enthoven, 1973). This is because achieving economic growth on both micro and macro levels is dependent, among other factors, on the information systems (Seiler, 1966). The importance of accounting in development processes is stressed by Enthoven (1973, p. 112) as that which "covers the entire administration or management of information for all socio-economic activities and conditions in the micro and macro economic sectors, covering internal and external needs of various groups." Many other researchers such as Mahon (1965) and Needles (1976) highlight the potential role of accounting in the economic development processes in a country. Hunter (1964, p. 58) went a step further by relating the economic problems in such a country to the accounting system applied in that country, stating that "Wherever there is an economic problem, there is an accounting problem".

The low achievements of developing countries in terms of economic growth, has led many researchers (e.g., Seidler, 1967; Enthoven, 1973, 1977) to investigate the role of accounting in providing the necessary information in developing countries. Enthoven (1977, p. 44), for instance, finds the role of accounting information in developing countries to be often "scant, unreliable and untimely". Consequently, the system and its internal and external financial reports are not relied on to any major degree by investors, bankers, national statistical institutes, government or even management." He concluded that much still needs to be done to raise both the recognition and methodology of accounting in Third World economies.

The answer to the question of why the developed countries' accounting systems adopted in most developing countries have failed to contribute to the economic development

process has been elusive until recently. The growing interest in the harmonisation of international accounting standards, has highlighted the tension between accounting and environmental factors. Much research was conducted to investigate this relationship (i.e. Seidler 1967, Buckley 1974, Previts 1975, Frank 1979, Choi and Mueller 1984). Most of these researchers revealed that accounting is, to a large extent, environmentally bound. This is demonstrated by world-wide diversity in national accounting systems and that this diversity is attributed mainly to environmental differences. Choi and Mueller (1984), for example, suggested that the existence of twelve major environmental factors (such as: political system, stage of economic development, growth pattern of the economy, status of professional education and organisation, legal system, social climate, sophistication of business management and financial community) may be perceived as having an effect on accounting development and the national adaptation of accounting practices, many of which undoubtedly affect national accounting development. Boczko (1995) claims that the inter-dependency of these factors accounts for the resulting diversity of national accounting systems and practices, all of which purport to satisfy the information requirements of their respective national users.

Although many researchers have investigated the relationship between accounting and environmental factors in general, culture¹ has received little attention. It is only really since the beginning of the 1980s that the influence of culture as an explicit factor impacting on accounting practice and reporting has been recognised, e.g. Jaggi (1975), Violet (1983), Arapan and Radebaugh (1985), Hofstede (1985), Gray (1988), Perera (1989), Perera and Mathews (1990). Most of these researchers indicate that culture has a significant influence on accounting. Some went a step further by attributing the resistance to the achievement of international harmonisation of accounting standards to cultural differences in each country. Perera (1990, p. 217) states that “International accounting has been marked by attempts at harmonising techniques and standards and the resistance to harmonisation has recently been identified as culturally related”.

¹ This key term will be discussed in later chapters

If the cultural characteristics dominant in each country represent an underlying barrier to the harmonisation of international accounting standards, then a relationship between accounting characteristics and cultural values should be expected. Although such relationships had been suggested in the literature, for a relatively long time it was vague. The need to identify the mechanism by which culture can influence accounting has long been felt. This need is marked by the theoretical framework that was developed by Gray (1988) in which cultural values have been linked with accounting practices. According to Gray, it is possible to identify certain associations between cultural values and accounting values which in turn have influences on certain aspects of accounting practice.

Most developing countries have had little chance to evolve their accounting system to truly reflect their needs and environmental factors (Samuels and Oliga, 1982, P.72). Thus the adoption of developed countries' accounting systems by most developing countries came under severe criticism by a number of researchers (e.g., Briston, 1978; Samuels 1990; Perera, 1989; Wallace, 1993) on the basis that the environmental factors in developing countries are considerably different from those of developed countries.

Libya is a developing country considered to be a centrally planned economy dominated by large state owned enterprises, which have been established to help achieve sustained economic growth in the country. Libyan culture has been dominated by the Arab Islamic culture since the 11th century (Zarrugh, 1959). Like many other developing countries Libya was subjected to long periods of western colonisation which left its mark on many of the country's systems. The implementation of different systems within Libya is likely to be heavily associated with these periods of colonisation. Yet there is little evidence to suggest that some of these systems, including the accounting system, have been developed or modified post colonisation. The accounting system has been criticised on the basis that it has an ineffective role in the country's development processes (e.g., Kilani 1988; Bait-El-Mal et al, 1990; Bait Elmal, 1990). According to Bait Elmal (1990, p. 31) "Despite the recognised role that accounting can play in a country's development processes, the current accounting system in Libya has not played its role in the country's development process". Lin (1990, p. 414) identifies the

irregular, untimely and unreliable accounting information as one of the main problems that faces Libyan industry. El-Arabi (1980), who made a survey of 68 industrial enterprises in Libya, found that 61 per cent of these enterprises conducted budgetary control as a technique of management control. However, he concluded that the technique used was not adequate for decision-making and for control over capital expenditure. The issue of performance of accountancy within economic development is subject to further research within the study.

Accounting systems are not an end in themselves; they are intended to provide information that is useful to the expected users in general (FASB, 1978). This can be coupled with the general consensus that the efficiency of this information is positively associated with the relevance of the accounting system to the environmental factors in which it operates. For example, Mckinnon (1985) stresses that enforced conformity without consideration for cultural aspects may result in an insufficient and inefficient system of information. Therefore, the seemingly low performance of the current accounting system in Libya could be attributed to the inefficiency of the existing accounting system itself. This is because the system is not in tune with its environmental factors, in particular, culture. Perera (1989, p. 43) reports that "To the extent that accounting skills are culture specific, there will be additional problems of relevance, because the culture based societal values which influence accounting in developing countries tend to be significantly different from those of western capitalist countries". The significance of cultures can also be seen as more important in Libya because the environmental factors other than culture (e.g., economic, political, level of education etc.) have all been through periods of change. Culture is a longer lasting environmental factor and tends to remain stable.

Classification studies have revealed the importance of the environment in determining accounting practices. One of the four reasons suggested by Nobes and Parker (1981) in their answer to the question as to why classification was important, was that "a developing country might be better able to understand the available accounting systems and which one would be most appropriate through seeing which other countries use particular systems". A general review of the classification studies reveals that most of

the studies have paid more attention to developed countries and only limited attention to developing countries. In particular, Libya has been excluded from all of the classification studies and surveys (see, for example, Price Waterhouse, 1979; Nair and Frank, 1980; Goodrich, 1982, Nobes and Parker, 1985). Thus for Libya to benefit from the experiences of other countries there is a need for its accounting system to be investigated.

1.2 The objectives of the study

The principal aim of this study is to offer an initial understanding of the likely reason(s) for the seemingly low performance of Libya's accounting system (enterprise accounting in particular), and to suggest ways of improvement. To achieve this aim, this research has the following objectives:

1. To investigate the main factors which have contributed to the evolution and shaping of the accounting system in Libya, and to determine to what extent the underlying accounting system has interacted with its environment.
2. To assess the relationship between the present accounting system in Libya and its environmental factors, particularly culture. This should provide a basis for comparing the hypothetical model of Libyan accounting derived from the accounting literature, particularly Gray's (1988) theory, with the current accounting system.
3. To investigate the extent to which Perera's (1989, p. 150) claim that "... given the circumstances prevailing in developing countries, a system of uniform accounting may be the only viable alternative", is true of Libya.

1.3 Reasons for choosing the topic

It has already been argued that accounting information presented in the accounting reports and statements has a vital role in socio-economic development (Mirghani, 1982).

The role which the accounting system could play is associated with accounting's relevance to the environment in which it operates (Nobes and Parker, 1990). Whilst the role of the present Libyan accounting system in contributing to economic development appears questionable (Bait Elmal, 1990), it has received very little attention.

The reasons for selecting this topic can be summarised as follows:

1. A concern emerged from the limited literature available on accounting in Libya (Bait Elmal, 1990; Lin, 1990) that accounting in Libya's socio-economic development process is reduced to a limited role;
2. The relevance of the current Libyan accounting system to its environmental context, specifically culture, has neither been questioned nor subjected to any satisfactory study. Most previous studies about Libyan accounting systems did not deal with the issue of the relationship of the accounting system in Libya to its environment. They were dealing with accounting problems and subjects from the view point of western accounting (particularly UK, USA). Kilani (1988) is the only researcher to carry out an historical study of accounting development in Libya but did not go on to investigate relationships between accounting and culture. Therefore, the present work is an original investigation of the relationship between Libyan accounting focusing on enterprise accounting, and its environmental factors, particularly culture; and
3. In order to improve the Libyan accounting systems appropriately, there is a need to raise awareness of the impact of environmental factors, particularly culture. Therefore it was felt that conducting such a study will provide new opportunities for Libya to investigate an important source of the problems of information for development more fully.

1.4- The Research Questions and Focus

Research questions are critical in focusing research and its processes. Eisenhardt and Bourgeois (1988) suggest using specific questions to define the scope and focus of the

research study. In order to achieve the main research objectives, eight research questions were formulated as the main focus for this research. They are as follows:

1. What are the origins of the current accounting in Libya? To what extent has a colonial influence played a role in providing a source of accounting practice?
2. Has the accounting system been subjected through time to any substantial change or modifications in post-colonial times?
3. To what extent does accounting play a role in the socio-economic development process of the country?
4. What is the nature of the relationship between environmental factors, particularly those of culture, and accounting? In the light of this relationship how can culture influence accounting?
5. What are the characteristics of Libyan culture? How are they different from the cultural characteristics of countries associated with the sources of accounting in Libya?
6. Can environmental differences, particularly those of culture, between Libya and those countries identified in 1 be a factor that impacts upon the success of implementing an imported accounting system in Libya?
7. What is the likely nature of the Libyan accounting system based on the international accounting literature and how does this compare with practice?
8. To what extent can a uniform accounting approach, with obvious emphasis on social accounting disclosure, be of relevance to the Libyan environmental factors?

1.5- Methodology

To achieve the research objectives and answer the consequent questions, Libya was taken as a case study. Thus, data about the Libyan environment, including the history of the country, Libya's past and present political and economic systems, and its stage of development were required. This is in addition to information regarding past and current laws and regulations, accounting education and the accounting profession in Libya. Further information required concerns: accounting development and regulation in general and in developed countries in particular, the role of accounting in economic

development in developing countries, and the relationship between accounting and its environmental context, particularly culture.

Thus, to collect the above information the study involves both theoretical and empirical analysis. The study begins with a review of the available literature concerning all the above matters which provided a basis for constructing the framework of this study. Due to the lack of studies about accounting in Libya, much of the information on accounting development and regulation, the profession and accounting education was acquired from primary sources and from the empirical part of the study.

Questionnaires and interviews were the main instruments for the empirical investigation. Most of the information was collected by means of questionnaires, which were distributed to three groups: company accountants, company managers, and public accountants in Libya (see chapter 5). Other data were collected through interviews with government officials, economists, planners, officials in the Institute of Public Control (IPC), and the Libyan Accounting and Auditing Association (LAAA). To find out more about accounting practices in Libya, financial statements of a sample of these companies were looked at.

Throughout the study, data gathered from the three sources (literature, questionnaires and interviews) were used to investigate, theoretically and empirically, the main factors that affect accounting development (particularly enterprise accounting). The extent to which accounting in Libya plays its role in the country's socio-economic development programmes, and the nature of the present Libyan accounting system and its relevance to the Libyan environment particularly culture were also investigated. The study looked at, theoretically and empirically, the type of information actually needed in Libya, and the relevance of an alternative accounting system (uniform accounting system) to the Libyan environment and in meeting its users' needs.

At the outset it is helpful to recognise that Libyan accounting system has for the purposes of this research been defined as encompassing: a system of accounting

regulation; measurement principles and disclosure practices which the regulation system requires or recommends. This is with a particular emphasis on enterprise accounting.

1.6- Structure and organisation of the thesis

Throughout the study, the data obtained from the three sources (literature, interviews, and questionnaires) will be analysed and discussed. Since the surveys will be the primary source of information, the presentation is designed to afford a comprehensive treatment of their results. The literature and personal interview data will be incorporated throughout and will be identified as such, where included.

This study is divided into eleven chapters. Chapter Two seeks to clarify some broad questions about the rationale and development of modern accounting and regulation. The chapter is divided into three sections; the first section starts with a brief historical review of the emergence of modern accounting. The second section is intended to review the two main approaches to accounting regulation which are self-regulation and statutory control. This is to highlight the main characteristics and operating environments as well as to consider criticisms of these approaches. To complete the picture of how these approaches operate, the remainder of the chapter discusses in some detail the historical development of accounting systems in two different countries - the UK and France. This was to highlight the main role, characteristics and operating environments, as well as to consider criticisms of the accounting systems in both countries.

Chapter Three aims to provide an insight into questions related to accounting in developing countries in general, such as accounting's potential role in the processes of socio-economic development in a country, accounting's origins and main characteristics, and the extent to which accounting plays its role in developing countries' development processes. The chapter begins with a brief discussion of the concept of development and the key characteristics of the prevailing environmental factors in developing countries in general, and Libya in particular. The key characteristics of the Libyan political and economic systems will be examined, for two

reasons: first, to investigate the extent to which the common characteristics of developing countries are prevalent in Libya, and secondly, it is believed that such a study can not be meaningful if it fails to take into account the nature and structure of the environment in which the study takes place. The chapter then pays special attention to the potential role that accounting can play in the socio-economic development processes in a country, particularly in developing countries. The remaining part of Chapter Three reviews literature about the origins and the extent to which accounting in developing countries in general has contributed to the process of their economic development.

Chapter Four pays particular attention to some key studies of the relationship between accounting and environmental factors, particularly the cultural factor, and how the latter can influence accounting. This aims to highlight, theoretically, the possible answers to such questions as; why differences in accounting arise between different countries and why the accounting systems of the developed countries which have been adopted by many developing countries have not been entirely successful. According to Samuels (1985, p. 9) anyone wishing to study and research international accounting today who ignores how we have arrived at such a rich variety of accounting practices is making a serious error. Thus, Chapter Four is divided into two sections. The first section starts by reviewing some international classification studies of accounting systems on the basis of a variety of environmental differences and the role culture may have in explaining variations in accounting practices. Having identified the significance of culture within the classification process, it is necessary to examine the nature and definition of culture in more detail. The section concludes with an examination of the possibility of measuring culture on a number of dimensions. The second section reviews the literature that explains the influence of culture on accounting. It is concerned mainly with the question of how culture can influence accounting. To achieve this, the section is focused on the influence of culture on accounting through the processes of professionalisation and regulation, and particularly the development of Gray's framework (1988) to measure the impact of culture on specific accounting practices. The remaining section will review a number of studies which have used Gray's theoretical framework in explaining the differences in accounting practices and standards among different nations.

In Chapter Five emphasis is placed on the researcher's rationale for adopting the research method. The chapter also provides a description of the methods used for data collection.

Chapter Six looks at the history of accounting in Libya. Libyan accounting systems have not been included in any of the international surveys, classifications and reviews (see, for example, Price Waterhouse, 1979; Nair and Frank, 1980; Goodrich, 1982; Nobes and Parker, 1985). This is reinforced by a similar lack of research within the country about the origins and factors that have contributed to the formation of the present accounting system in Libya. Thus, little is known about accounting in Libya. The survey of accounting literature in the previous chapters, implies that an accounting system comprises interacting environmental factors and "there is a need to uncover the origins and basic structure of the accounting system in each country, so that accounting can be shown in its dependence on, or shaping of, the underlying linguistic, political, social, and economic conditions" (Wallace and Gernon, 1991, p.215). Moreover, an understanding of the origins and structure of the accounting system in a country is a first step for any attempts to develop and evaluate the performance of the accounting system in that country.

Therefore, this chapter aims to investigate the main factors that have contributed to the development and formation of the accounting system in Libya, particularly enterprise accounting and its current status.

The accounting literature indicates that accounting has evolved and developed over time to serve the needs of its society. Chapter Seven concentrates on the question as to what extent accounting in Libya measures and communicates Libya's economic information to allow users to take rational decisions and enhance social welfare, and, whether there is a need for action (to develop, modify etc.) to be taken or not. In order to facilitate an initial understanding of the environment in which accounting is operated, the chapter starts by a brief discussion about the types and characteristics of enterprises in Libya.

The accounting literature leads to the suggestion that the efficiency of the Libyan accounting system is partly associated with the extent of similarity in environmental factors between Libya and those countries which provide the source of the current Libyan accounting system. Therefore, part of investigating the problems that face the current accounting system's efficient operation in Libya, requires an understanding of the environmental similarities and differences in Libya and those in countries whence the current accounting system in Libya came. Thus, the first part of Chapter Eight concentrates on the environmental factors which have been suggested in the accounting literature as being crucial in shaping countries' accounting systems in general in Libya and the UK. This aims to provide an insight into the consistency between the accounting system, adopted in Libya and the country's environment. The chapter then focuses on culture. By using Hofstede's cultural dimensions and Gray's accounting dimensions, the relevance of the Anglo-Saxon based self-regulation accounting system to the Libyan culture is questioned, and Gray's theory is tested, in predicting the likely nature of the Libyan accounting system.

The transferability of one country's accounting system to another is subjected to the influence of religion (Clarke, 1993) and organisational differences (i.e. structure and policy) in each country (Arpan and Radebaugh, 1981 and Horngren, 1972). Thus, Chapter Nine is divided into two main sections. The first section discusses mainly theoretically, some aspects of the potential influence of religion, particularly Islam, on accounting. The second section discusses theoretically, with some empirical evidence, the influence of culture on organisational issues and its subsequent effect on accounting. It is not the main purpose of this study to examine these issues in depth. However, it may well be that an examination of these issues reinforces evidence from the main part of the study which suggests that the current "imported" Anglo Saxon accounting system is not consistent with the Libyan environment. Thus, Chapter Nine examines each of the two issues in turn to provide further support by which the transferability of Anglo Saxon accounting system to a Libyan context can be evaluated.

Taking into consideration the limitations and shortcomings of the current accounting systems in Libyan companies, Chapter Ten discusses and reviews other alternative

approaches, particularly the uniform accounting system with more emphasis on social accounting, to the development of accounting in Libya, and assesses the relevance of this approach to the environmental factors in Libya, particularly culture.

Chapter Eleven concludes with suggestions for possible areas of improvement and development in the accounting system in Libya.

Chapter Two- Accounting Development and Regulation

2.1- Introduction

This chapter seeks to clarify some broad questions about the rationale and development of modern accounting and regulation. The chapter is divided into three sections, with the first providing a brief historical review of the emergence of modern accounting. The second section reviews the two main approaches to accounting regulation which are self-regulation and statutory control. This is to highlight the main characteristics and operating environments as well as consider criticisms of these approaches. To complete the picture of how these approaches operate, the remainder of the chapter discusses in some detail the historical development of accounting systems in two different countries - the UK and France.

2.2- The Development of Accounting

Accounting as a practice undoubtedly has its roots in antiquity, and can be traced back to the ancient Chaldean-Babylonian, Assyrian and Sumerian Civilisations, Egyptian and Greek Civilisations. The main objective of accounting during that early time was to keep proper records of the owners' transactions, enabling them to ensure stewardship over their property (Bailey, 1984). According to Watts (1996, p.151), "The early users of accounting lived in a simple world with only low level technology, little expensive capital equipment and simple trading patterns. Historical accounting, with its emphasis on stewardship, was more than adequate for them". Zimmerman (1984, p. 4) also states that by our standards those functions were relatively simple, but essential.

Accounting has been developed in response to society's needs (Clark 1973, and Bailey, 1984). During the fourteenth century, Italian merchants developed substantial industrial activities with trading branches in many parts of the world. Charge/discharge accounts would have been totally inadequate for this degree of sophistication (Watts, 1996, p.6). The need for the development of accounting methods and practices became more apparent in order to provide information relevant to the new needs of the environment. This was marked by the invention of double entry book-keeping. It is described as the cornerstone from the medieval to the modern (Hayashi 1986). During the fourteenth

century, Luca Pacioli, who wrote the first book about double entry book-keeping in 1494, stated that the purpose of book-keeping was to give the trader immediate information as to his assets and liabilities. According to Watts (1996, p.2), the origins of modern accounting are most closely associated with the name of Luca Pacioli, and 'double entry book-keeping' marked the first step forward in the development of modern accounting.

The centuries following the publication of Pacioli's book witnessed the spread of the double entry book-keeping system in Europe and America. De Roover (1956) claims that the fourteenth and fifteenth centuries were perhaps the most brilliant and progressive period in the history of accounting. He states "the spread of double entry book-keeping from Italy to the rest of Europe and thence further afield was largely the result of the influence of the treatise describing and explaining the system and its practice, and of business practices in Italy and those of Italian merchants elsewhere which were copied by others whom came into contact with them". Although the spread consisted mainly of "book-keeping techniques" such as the accounting data and matters related to the posting and summarising of accounts, it has played a significant role in bringing about accounting practices in the world on similar lines. Watts (1996, p.2) argues that all accounting systems have a common origin and later differences are unlikely to have developed in a totally haphazard way. Hatfield (1966, p.170) argues that "accounting in the modern world has developed from the same simple beginnings. Pacioli's Tractatus, either in the original or in translation or adaptations, spread through all Europe, and everywhere is the basis upon which modern accounting rests".

Some scholars such as Sombart (1919) suggest a causative link between the emergence of capitalism and double-entry book-keeping. Sombart views the development of double entry book-keeping as a major influence on economic development and argues that double entry released, activated and stimulated the rationalistic pursuit of profits on capital (Sombart, 1919). Littleton (1933) in the other hand, related the development of double entry book-keeping to the combination of different conditions, which were classified into those representing linguistic nature, such as reading and writing, and those representing material nature such as property, capital, commerce and trade as well

as to the pressure or 'business energy' that was required for double entry book-keeping to be developed. In general, it could be claimed that double entry developed as a response to the new environmental needs.

After a long period of accounting stagnation, the other significant influence on modern accounting development came from the Industrial Revolution in the nineteenth and early twentieth centuries. This happened as a result of the increase in the scale of enterprises in both number and size following technological breakthroughs. This is also reinforced by the shift in the basic form of business organisation from proprietorships and partnerships to limited liability and stock companies, and ultimately to full-blown corporations. Accounting had to accommodate these new needs (Arpan, 1981).

The increase in number and variety of users who became interested in the companies' activities created a tremendous pressure on accounting to provide more information as a result of the separation between owners and management. The rapid and widespread use of accounting statements as the main means of providing and distributing financial information about the economic entities to different users, mainly investors, has led to more concern about the manners and methods by which this information has been generated. Usefulness, reliability as well as comparability became part of accounting. To achieve the usefulness, reliability and comparability, it was felt necessary that the general framework of accounting should include regulations and standardisation. Accounting standards were designed to achieve uniformity and comparability in financial reporting (Bloom and Naciri, 1989, p.71).

Generally speaking, accounting seems to have developed in response to its environmental needs. Zeff (1972), for example, demonstrates that the development of accounting principles does not come from specific scientific theory, but from interactions among theory, practices and various social and political influences. "Indeed the history of accounting reflects the evolutionary pattern of social developments and....how much accounting is a product of its environment and at the same time a force for changing it" (Glaulier and Underdown, 1994).

2.3- Different Approaches to Accounting Regulation

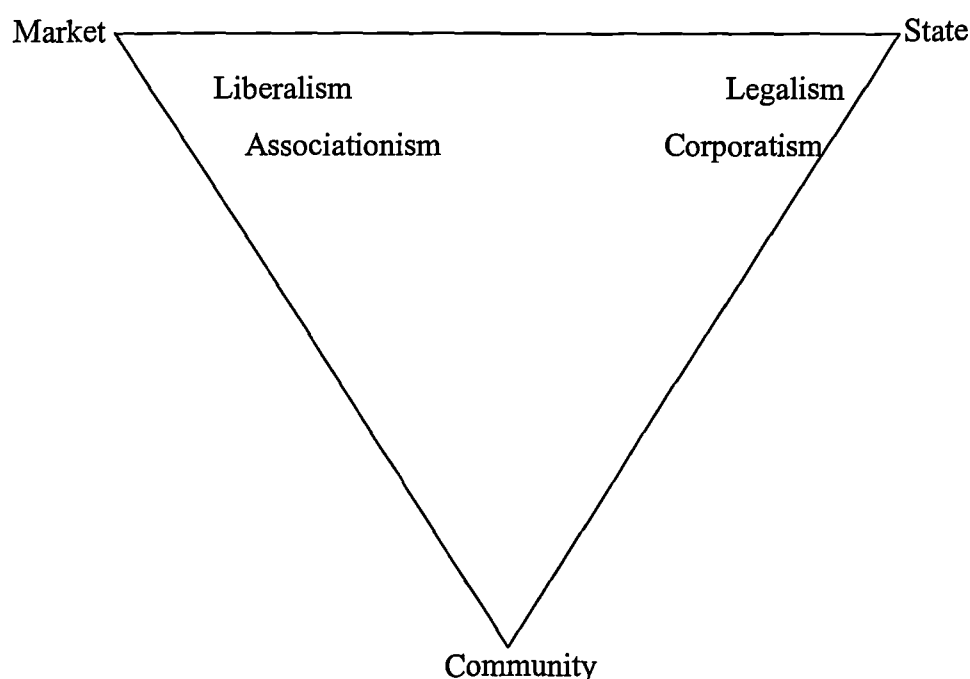
Regulation of accounting practices is considered necessary as a means of ensuring that the most equitable outcome of the accounting system is obtained. According to Taylor and Turley (1986), developments in regulation have also come about in response to shocks experienced in the financial reporting environment. These shocks have largely come in the form of scandals or important business failures. Benston (1976) has summarised the arguments used to support accounting regulation into six reasons, such as, regulation can improve government administration and availability of information for the general public and employees. Regulation can improve the efficiency of the allocation of resources and the operation of the securities market. Regulation will prevent fraud, misappropriation and injustice.

Evidence from the accounting literature indicates that regulation of accounting exists to a significantly varying degree in both developed and developing countries, and different approaches have been used in achieving these regulations. A model that has produced a theoretical framework by which accounting regulation can be classified is delineated by Streek and Schmitter (1985) and then amended by Puxty et al (1987) (see figure 1). According to this model, accounting regulation could be achieved by the three extremes of the community, market and state model of social orders. According to Streek and Schmitter, (1985) the 'market form' is characterised by competing firms in rational pursuit of profit. This type of social order is more prevalent in modern advanced western type societies. The accounting systems, it is theorised, would be profit-oriented, responsive to change and unstandardised. Each company has a free hand to determine suitable accounting methods, whereas, the 'state form' is characterised by hierarchical control and bureaucracy. The state may often involve itself in the affairs of the other orders, if it feels 'self-interest' to be an impediment to what it sees as national goods. Accountability is more greatly emphasised, with a control based and more standardised accounting system.

In a 'community form', there is a sense of shared belonging and participation within a group. There is an inward-looking closed social order, with little social mobility. The

accounting system, it is theorised, would be profit-oriented, responsive to change and unstandardised. Puxty et al (1987) further identify, in particular, two extreme modes: 'liberalism' (relying on unfettered market principles) whereby accounting regulations demand that only commercially necessary information is produced; and 'legalism' (relying on unreserved state principles) in which a strict obligation to follow the letter of the law is imposed. As presented in Figure (1), 'associationism' and 'corporatism' are other possible moderate modes of regulation.

Figure (1) -Strategies of Regulation of Financial Reporting



Adapted from Puxty et al (1987, p. 283)

Generally speaking, although accounting regulation and practices do not seem to be identical within each approach, differences do exist within countries using the same approach. Nonetheless, researchers tend to separate broadly these accounting regulatory approaches into two main categories namely the self-regulation approach 'liberalism' (e.g. the UK and US) and the statutory approach 'legalism' (e.g. France and Germany). Based on the accounting literature, in particular the work of Streek and Schmitter (1985), Puxty et al (1987) and Bloom and Naciri (1989), one may suggest that adopting a regulation model in a country is highly associated with a country's prevailing

environmental factors. Thus, accounting regulation approaches and practices seem to vary from one country to another in accordance with their environmental differences. Reviewing some aspects of the development, outcomes and differences between these two approaches may help to throw more light on the relationships underpinning accounting and the regulatory process.

2.3.1- Self-regulatory approach

Under this approach, the standardisation and development of accounting principles and practices are assumed to be carried out by the accounting profession, independent of legal direction or government intervention. Accounting standards are established entirely by expert professional accountants. According to Taylor and Turley (1986, p.28), government encouragement of self-regulation seems to show that it is perceived as an alternative to statutory regulation. Courts provide enforcement through legal actions but only if a complaint is filed (Mueller et 1987, p.5). Flexibility of choice among different accounting procedures for the same economic transactions is the main feature of accounting standards and procedures under this approach (Taylor and Turley, 1986).

As mentioned earlier, the choice of approach seems to be associated with the nature of the prevailing environment in which financial accounting and reporting prevails in each country (Bloom and Naciri, 1989). The self-regulation approach is evident in countries that have an individualism orientation and free market economy with a strong capital market, such as the US, UK, and Canada. In a free market economy, accounting systems are operated based on the belief that economic resource allocation can be achieved by the invisible (or visible) hands of the free market system (Wallace, 1993, p.125). Therefore, financial accounting information becomes an important source of data to shareholders, investors and creditors. With such a relationship, it is hardly surprising that financial accounting is oriented toward the information needs of investors and creditors (Mueller et al, 1987, p. 11). Accounting standards and procedures under this approach have been, for the most part, inductively derived from accounting and the environment, and thus the influence of the market on the development of accounting standards and procedures becomes highly apparent. This is confirmed by Perera (1989,

p. 50) who revealed that "in a free market economy the pressure for disclosure has led to a significant effect on the development of accounting principles and practices in these countries and the requirements of capital markets became a major influencing factor in their disclosure patterns".

As users have diverse interests in accounting reports, conflicts between these users' needs become more apparent and each of these users tries to influence accounting standards and procedures to reflect their self interest. Lobbying of the profession as a regulator of accounting is one way which has been used to influence the process of setting accounting standards and procedures and specifying the reporting requirements that are in accordance with their particular desire. Taylor and Turley (1986, p.29) argue in this respect that private regulatory bodies may restrict access to their service or may discriminate against certain members. Moreover, their regulatory power may be used to exploit the public for private interest.

In this situation, setting accounting standards and procedures becomes a political matter. Charles (1985) argues that

“the setting of accounting standards is as much a product of political action as of flawless logic or empirical findings. the setting of standards is a *social* decision. Standards place restrictions on behaviour; therefore, they must be accepted by the affected parties. Acceptance may be forced or voluntary or some of both. In a democratic society, getting acceptance is an exceedingly complicated process that requires skilful marketing in a political arena”.

An example of this can be found when the accounting profession in the UK set up the ASC in 1969 in order to define accounting concepts, to narrow differences in financial reporting, and to codify generally accepted accounting standards in the name of public interest. Taylor and Turley (1986, p. 73), argue that the ASC has sometimes be criticised for being dominated by what are known as the “Big Eight” accounting firms. They also observe that while the ASC’s recommendations may affect a wide spectrum of interests or group, it is likely that, in practice, the ASC will have direct contact with only an incomplete representation of those affected (ibid., p. 51). Watts and Zimmerman (1978, p. 131) infer from the history of the Committee on Accounting Procedures, that

the Accounting Principles Board and the FASB are replete with examples of management and industry exerting political pressure on the standard-setting bodies. The political pressure on the professional accounting bodies is also confirmed by Samuels (1990, p.75), who claims that "it used to be said that financial accounts were produced to satisfy user needs. Now however, there seems to be less emphasis on this. The professional accounting bodies now often appear more concerned to satisfy the wishes of those who provide the information rather than those to whom it is directed.". The great danger of a private sector regulatory body is that it can be 'captured' by those with a sectional interest (Watts, 1996, p.225).

Studying financial accounting reports in a free market economy such as the UK and the US indicates the above problems are apparent as financial accounting information disclosed in the accounting reports are orientated mainly toward meeting the particular needs of investors and creditors at the cost of other users' needs. This is reinforced by Briston (1978) in his analysis of the accounting and auditing standards in the UK, and the US which revealed that they are concerned only with the problems of corporate reporting and of auditing annual statements, while the information needs of managers, of the government administration sector, and of government planners are not regarded as the concern of accountants (Briston, 1978, p. 106).

Clearly, under this approach the interests of some users assume more importance than the interests of other users when the major feature of financial accounting information is to meet the micro level and external auditing needs, with little attention on managerial accounting and the needs at macro levels. Government, under this approach, has to rely on many resources other than published financial statements for planning and the construction of national accounts (Briston, 1981, p. 60).

In brief, the setting of accounting standards and policy under this approach is left entirely in the hands of expert professional accountants, with rare government involvement. Accounting regulation is intended to narrow the differences in practice and to protect the interests of the public. However, the dominance of some users' needs, particularly investors and creditors over other users, leaves the achievement of this goal

far from complete. By its nature, self-regulation involves private bodies in the implementation of regulatory activity. A crucial element in implementation is enforcement, and this aspect of self-regulation contains important potential weaknesses (Taylor and Turley, 1986, p.29). This point is reinforced by Watts (1996, p. 226) who argues that private sector regulatory bodies lack the power of enforcement. According to Watts (1996, p. 226), "for less serious failures by a company, the auditors would merely note the non-compliance in their audit report, while for more serious cases they could qualify the audit report. Rarely, however, were these powers ever used despite several well-known examples of companies failing to comply with standards". Despite the above limitations, the self-regulation approach may, under certain circumstances, give greater flexibility necessary to cope with rapid change e.g., new financial instruments.

2.3.2- Statutory approach

Unlike the self-regulatory approach, under a statutory approach accounting principles become part of the legal framework. Government plays a vital role in the control of economic activities, and the accounting profession may therefore become relatively weak. Financial accounting is legalistic in its orientation, and practices tend to be highly conservative (Mueller et al, 1987).

A statutory approach is more likely to be adopted in countries that have less individualism orientation, with a centralised economy and a less active capital market. In these countries, there will usually be a single authority (usually the nation's national planning board) which exercises control over accounting policy through an authoritative, comprehensive chart of accounting processes. It is the government body which judges accounting policies and their economic and social consequences in the light of specific national goals. As a result, the forms and contents of financial statements are prescribed by the relevant laws, leading accounting practices toward more uniformity.

Under the statutory approach, a uniform accounting system is considered as the model with the main objective of providing a frame of reference, or a structure of accounting practice, within which the adequacy of specific methods may be judged. It also

formulates a coherent accounting framework to enable accountants to improve the quality of financial reporting. For each kind of transaction, there should be only one prescribed accounting treatment that can be developed and enforced.

France and Germany can be taken as examples of statutory approaches. In both countries there has been a tradition of state intervention in economic affairs, so the objective of the accounting system is to provide necessary information for planning at various levels and to link accounting in the micro levels to accounting on the macro level and also help to control economic activities. Therefore, it is argued by Mueller et al (1987, p. 18) that accounting under the statutory approach is not primarily oriented toward the decision-making needs of the capital providers. Instead, it is usually designed to satisfy such government imposed requirements as computing income taxes or demonstrating compliance with the national government's macroeconomics plan. Unlike the generally accepted principles approach, although reports prepared under the statutory approach are intended mainly for the macro level users, information disclosed in annual reports clearly reflect the concerns of a wide range of interest-groups, employees, administrative authorities and the community as a whole (Dowson and Steward, 1992). According to Watts (1996, p. 225), this is because "government legislature is able to consider the wider, welfare implications of its policies. If, for example, the introduction of an accounting standard causes reported profits to fall, the legislature could consider the ramifications of this by, for example, amending tax laws or any other relevant legislation- something outside the power of private regulator". The Central Bank, the Central Statistical Services and other Government agencies have ready access to economic data relevant to the management of the government (Glautier and Underdown, 1992).

Also in comparison with standardisation in Anglo-Saxon countries, Standish (1991, p. 164) discussing the French National Accounting Plan, states that

“.....the greater standardisation of practice engendered by the plan facilitates interpersonal and inter-enterprise communication between accountants and users. In these conditions, the operation of the accounting system, the meaning of accounting terminology and the formatting of annual accounts have a greater degree of inherent predictability than has historically been the case in the English-speaking world, where there has been greater emphasis on accounting information as the private language of business.”

As uniformity is the main feature of accounting system under statutory approach, the approach was subjected to criticism. For example, proponents of flexibility claim that the business environment is complex, and therefore, accounting should be flexible and diverse, not simple and meaningless. As a defence for uniformity, it is argued that even though it is true that the business environment is complex, reporting noncomparable data will do nothing but increase the complexity of decisions for users (Dau, 1974).

The usefulness of a uniform accounting system is also highlighted by the Committee to Prepare a Statement of Basic Accounting theory (1966, p. 17), which states that

“Where various alternative methods of measuring an economic activity exist, it is important that the best available one be used uniformly within a firm, by different firms, and, to the extent practicable, by different industries. This uniformity refers to consistent classification and terminology as well as consistent measurement, and it requires precise meanings. This guideline is required in order to meet a basic need of managers, investors, and creditors to compare results and financial conditions of different segments of firms, different firms, and different industries.”

Uniformity is criticised however, on the basis that standardisation does not automatically improve the quality of financial data. Standardised charts of accounts may well give a legal and true picture of an enterprise's business activity, but they may not necessarily give a fair one to external users of accounts. "Financial statements resulting from this approach can reveal one figure, described as net income for the year, which will represent the 'true' income of a business," Dau (1974). Whilst this may not be universally accepted it is an indication that uniform accounting may lead to greater congruence of net income statements.

The criticisms of inflexibility of the uniform accounting systems are challenged by Glautier and Underdown (1992, p. 112) on the basis that national accounting plans are not incompatible with accounting standards themselves. They pointed out that many accounting standards can be made to operate under national accounting plans. Examples can be found in several EU countries that have national accounting plans and are members of the IASC, and are able to adopt IASs if they do not violate the principles underlying their own national accounting plans.

In an attempt to compare the differences between the two approaches to accounting regulations, Glautier and Underdown (1992 p.106) summarised the main aspects in which the statutory approach differs from the self-regulation approach, as follows:

- a) Accounting is made subject to Government legislation. The accounting profession has no delegated authority to make or change accounting regulation;
- b) The practice of accounting is made subject to the Commercial Code, and tax laws;
- c) There is less emphasis on accounting principles, but great significance is attached to orderly book-keeping and uniformity of accounting practice;
- d) In France and several Latin countries, Government delegates authority from reviewing the practices of accounting to a permanent Government Accounting Commission;
- e) The actual practice of book-keeping and the presentation of financial statements in the form of a balance sheet, profit and loss statements and funds statements must be in the prescribed form. Consequently, all firms maintain standardised book-keeping systems and produce uniform sets of financial statements; and
- f) Macro-economic considerations outweigh private sector interests with regard to the need for information relevant to decision-making.

Finally, it is important to mention that the result of uniform accounting in countries with a centrally planned economy has led Mueller (1967, p. 99) to say that "complete uniform accounting system is a prerequisite to effective central planning... of necessity Soviet Union accounting must be uniform." This conclusion is also confirmed by Nobes and Parker (1981, p. 68), who argue that the consequent uniformity for which French accounting is famous, is very useful in an economy which is centralised and closely regulated by the government.

2.4- Accounting regulation in the UK and France

A comparative study of the evolution of accounting under different environments should provide important lessons regarding the true nature of accounting and the extent to which it is possible to separate fundamental truths from historical accidents (Briston, 1978, p. 117).

An explanation of how accounting regulations and standards are established in two industrialised nations as representatives of the two main approaches to accounting regulation (the UK as a representative of the Anglo-Saxon approach and France as a representative of Continental countries) will help to give some insight into the origins of the two main approaches, the main factors influencing their evolution, and, the mechanisms by which these approaches are operated. According to Samuels (1985, p. 43), a country may be able to anticipate problems and consider possible solutions by observing what has happened in other countries with similar characteristics. As developing countries are striving hard to develop their own accounting systems, describing the accounting evolution, regulation and environment in two different countries under two different approaches, may help to establish in the forthcoming discussion, which of the above approaches provides a viable system of enhancing the accounting systems of developing countries. It is recognised that there may be limits to the extent to which this is possible.

2.4.1- Accounting regulations in the UK

In the UK the accounting regulatory system has involved a mixture of legal control and self-regulation. It is self regulation within a legal framework which continues to be the dominant underlying approach (Taylor and Turley, 1986, p. 32). Therefore, accounting regulation can be found in both professional pronouncements (Statements of Standard Accounting Practice) and legislation (Companies Act).

2.4.1.1- Accounting Legalisation.

Although accounting was not actually invented in the UK, it can nevertheless be said that it invented the conditions in which limited liability companies could be created and flourish, and in which there would be a need for director/managers to provide owner/shareholders with periodic audited accounts (Lee and Parker, 1979). The industrial revolution and the development of international trade in the 19th century in the United States and the UK created a tremendous amount of new wealth in these countries, wealth that spread widely among the general populace (Mueller et al 1987,

p.10). The growth of large-scale enterprises and corporations was combined by the increasing demand for capital. The middle classes became a source of meeting much of this need (Ibid 1987). This reinforced the separation between the financing function and the management function. According to Mueller et al (1987), what emerged from this phenomenon had an important impact on financial accounting in the UK and the US. First, the investors/creditors group became large and diverse, and companies acquired a widespread pattern of ownership. Second, the owners became divorced from the management of their companies. To afford the outside investors and other financiers with a measure of protection, the British government introduced a succession of Companies Acts, (Most, 1977). The regulation of financial accounting practices in the UK has its beginning in the Joint Stock Companies Act of 1844 (Nobes and Parker, 1991, p.56) and in order to meet changes in the environment, Acts have been progressively supplemented and refined up to the present day (Most, 1977, p.28).

Throughout the nineteenth century, however, there were no mandatory accounting and audit regulations in the general Companies Acts, although railways, banks and public utilities were subject to much greater regulation (Parker, 1990). According to Parker (1991, p. 56), it is only during the twentieth century that the rules in the Acts have greatly increased in both quantity and complexity. This process is marked by the 1948 Act which remained the principal act for almost forty years but was amended by a series of Acts; such as those of 1967, 1976, 1980, 1981. Before 1981, company law contained mainly disclosure rules. These have been greatly expanded and many measurement rules have been added (Parker, 1990). The contents of the profit and loss account and balance sheet are prescribed by the Companies Act 1981, which was based on the Fourth Directive on Company Law of The EEC (Lee, 1984, p.257). In 1985 all previous Acts were consolidated into the Companies Act 1985. The accounting and auditing provisions of the Act were amended and restated by Companies Act 1989, which was precipitated by the need to harmonise UK legislation with EU legislation, principally the EC 7th Directive.

These Acts each require corporation to prepare a profit and loss account and a balance sheet at the end of each accounting period. The financial statements must give a 'true

and fair view' of the company's profit or loss and financial position. Corporations are also required to keep proper books of account, which should contain the information necessary to give a 'true and fair view' of the company's financial affairs. According to the Act, the financial statements, along with the directors' report and the auditors' report, must be prepared within nine months of the year end and prior to the date of the annual general meeting of the stockholders. The Companies Acts require the appointment of a qualified auditor for each corporation. The auditor's report should state whether financial statements (profit and loss accounts and balance sheets) are prepared in conformity with the Companies Acts and whether they give a 'true and fair view' of the company's financial position and the results of its operations (Alhashim et al, 1992, p.26). In order to do the job effectively, an auditor is given power to call for and examine any book, document, or other record of the company, and to require any information or explanation which is thought to be necessary for the purposes of the audit (Lee, 1984, p.261).

Although there have been a number of changes in the law, it has tended to avoid the detailed prescription of accounting rules and regulations on the form and content of the annual reports (Taylor and Turley, 1986, p. 34). According to Standish (1981), in essence, the Companies Acts then provided for:

- ❖ A general procedure for the incorporation of companies with limited personal liability for shareholders;
- ❖ The powers and duties of directors in regard to management of the affairs of the company;
- ❖ The accountability of directors to the shareholders, particularly through the presentation of the annual accounts and the directors' report thereon;
- ❖ Audit of the annual accounts;
- ❖ Procedures for issuing shares and other securities to the public at large; and
- ❖ Procedures for the conduct of affairs of companies which become insolvent, leading either to their continuance under the direction of a receiver, or to liquidation.

The Fourth Directive of the EU went some way in requiring member countries to amend their company law in order to standardise the content and presentation of corporate

financial statements. Glautier and Underdown (1992, p.109) argue that current UK legislation brings the country in line with other EU members in respect of content and format of corporate financial statements. Although the UK has made many refinements to the Company Acts, such as the 1989 Act to bring UK legislation closer to European Community Directives, professional accounting in the UK was left free to regulate and standardise accounting practice under a self-regulatory approach. Nobes (1991, p. 34) states in connection with the influence of the fourth Directive on accounting in Anglo-Saxon countries that “even now there remains much more flexibility in the United Kingdom, Ireland and the Netherlands than in the rest of the EC and US flexibility of formats and terminology is greater still”.

The Companies Acts have influenced accountancy in the UK mainly to protect the interest of a small group, especially providers of capital, and to prevent distortions through attempts to ensure disclosure of all relevant matters. The accounting system in the UK appears to be concerned with providing information, mainly to investors, to show how management has exercised its responsibilities of stewardship in using their investment and how much return they will get.

2.4.1.2- The Accounting Profession.

The structure of the profession in the UK reflects historical events rather than any overall planned coverage of membership and distribution of functions (Parker 1991, p. 132). It is said the UK's major contribution to accounting was the development of professional bodies. It is one of the earliest countries to establish professional accounting organisations. The first was the Society of Accountants in Edinburgh in 1854, and the second was the English Institute in 1880. The idea of professional bodies for accountants soon spread within the UK and to other countries (Samuels, 1985, p.19). As accounting practices were not fully described by the Law, professional accounting bodies became responsible for the development of accounting. Standard setting in the Institute of Chartered Accountants in England and Wales (ICAEW) began with the issue of Recommendation on Accounting Principles in 1942. These pronouncements were intended as general guidance to Institute members (Zeff, 1973, p.8).

The late 1960s saw a sharp and dramatic increase in the level of criticism of the accountancy profession in the UK, particularly with regard to the flexibility of accounting practice and to what were widely regarded as damaging examples of misleading annual accounts (Parker, 1991, p. 132). This resulted in the publication of the 'Statement of Intent on Accounting Standards' in the 1970s by the Institute of Chartered Accountants in England and Wales, with its stated objectives of 'narrowing the areas of differences and variety in accounting practice' (Lee, 1975, p. 29). The implications of the new programme for the entire accounting practice in the UK encouraged four other accountancy bodies to join with the English Institute in 1970 in the new effort for control. The bodies were: The Institute of Chartered Accountants of Scotland, The Institute of Chartered Accountants in Ireland, The Association of Certified Accountants, and The Institute of Cost and Management Accountants (Zeff, 1973, p. 8-9). An Accounting Standard Steering Committee was established consisting of representatives from all five accountancy bodies.

In June 1972, the London Stock Exchange made it known that its listed companies would be required to disclose in their annual reports any material departures from accounting practices recommended in the Statements of Standard Accounting Practice. In 1974, the governing six bodies of the ASSC (including the Chartered Institute of Public Finance and Accountancy) formed the Consultative Committee of Accountancy Bodies (CCAB).

In 1976, the ASSC was renamed the Accounting Standards Committee (ASC), which had the prime objective of narrowing the areas of difference and variety in accounting practice. The ASC prepared, but did not issue or enforce, accounting standards; that is, the role of the six bodies comprising the CCAB. The procedure used for this purpose was initiated by the issue of an 'Exposure Draft' on a specific topic for discussion by accountants and the public at large. Comments made on the Exposure Draft are taken into consideration when drawing up a formal statement of the accounting method to be applied when dealing with that specific topic. This formal statement was known as a Statement of Standard Accounting Practice (SSAP). Once the SSAP had been adopted by the accounting profession, any material departure from the standard used in

presenting financial reports needed to be disclosed in that report (Glaulier and Underdown, 1992, p. 64).

The ASC consisted of 20 part-time, unpaid members. Five of them were actual 'users' of financial reports. ASC was not mandatory by law, although it did have the authority to discipline professional members for lack of adherence to its standards, an authority it did not exert. Nonetheless, auditors did note any such lack of compliance in qualified audit opinions, as does the Stock Exchange, (Bloom and Naciri, 1989, p. 79).

Although much of the profession's rule-making was accepted by government, commerce and industry, the ASC made no attempt to construct a conceptual framework and in some critical areas, the ASC notably failed to produce acceptable rules. In 1990, the ASC was replaced by an Accounting Standard Board (ASB). The introduction of Statements of Recommended Practice (SORPs), akin to the old recommendations, means that some industries, including the economically vital oil and gas industry, are allowed and encouraged to prepare their own accounting rules for 'franking' or approval.

The UK evidence suggests the accounting profession has developed in response to historical events, rather than to any predetermined plan setting out its purpose, function and nature of membership. Nobes and Parker (1985, p. 48) argue that, for a country having in all significant respects common company and tax laws, the existence of the six professional bodies creates what can be termed system redundancy, with major effort being required to co-ordinate their views and resolve conflict, which in a uniform structure would perforce occur as part of the internal policy process of the profession. It is important to mention that the independence of external auditors in the UK and US has been challenged by many researchers (see Boland 1982; and Briston, 1985).

Many researchers questioned the outcome of the UK's accounting system in meeting its own environment needs. For instance, Briston (1978) viewed the UK accounting system as "barely adequate for meeting the external reporting needs of the private sector, and it is completely inadequate in the field of public sector accounting, economic planning,

and the definition and measurement of efficiency-fields incidentally which have long since overtaken reporting to investors as the main concerns of modern economics” (Briston, 1978, p. 107).

Briston (1978, p. 107) further criticised the UK accounting system on the basis that it was established to meet the perceived needs of mid-nineteenth century capitalism, but it was created in a rigid and self-perpetuating structure which has proved resistant to the changing needs of the economy. He added that, “Certainly if an accountancy system were to be designed from ‘scratch’ to meet the current informational requirements of the economy, it would take a very different form in both the private and the public sectors from that currently operated”.

The UK accounting system seems to display the following features:

1. The dominant concern of accounting is to meet the needs of one stakeholders group, namely shareholders. The needs of other stakeholders are either given scant attention or ignored;
2. The dominant concern of accounting is with financial reporting and external auditing. Much less attention is given to other areas and little concern is shown for the need to establish a link between micro and macro accounting;
3. Shaping the accounting system is largely the responsibility of the accounting profession;
4. Accounting methods and procedures are left to be determined by management within a broad framework;
5. The accountants’ and auditors’ attention is focused on compliance with detailed reporting requirements rather than whether the accounting system assists in management or government to reach decisions; and
6. The government and its bodies are not regarded as influential in the areas of developing accounting theory and practice.

Although the UK and the US have used the same approach to the regulation of accounting, there are some differences within their accounting regulations.

2.4.2- Accounting regulations in France

The system for drawing up and regulating annual accounts in France is significantly different from arrangements found in the English-speaking world (Standish, 1991, p.159). The continental European tradition underlying French accounting emphasises comparability, rationalisation and harmonisation. On the other hand, the Anglo-Saxon system emphasises pragmatism and empiricism (Bloom et al, 1989, p. 81). To achieve the above goals, France has adopted the statutory approach in regulating accounting practice.

Accounting history in France reveals that accounts have been kept in the form of a double entry system going back as far as the thirteenth century (Lee, 1973). The statutory influence on accounting development can be traced back to the same period. During this period the diffusion of mercantile law throughout the Mediterranean began to effect the keeping of accounts (Most, 1984, p. 297). In the seventeenth century, several attempts were made in France to regulate accounting through legislation. This started in 1673 when the *Ordonnance de Commerce*, made it obligatory for merchants to keep accounts, and provide details to that end. This was followed by a number of texts published which included instructions in the area of accounting during 1700. In 1900, the influence of legal provisions on accounting development became more apparent, (Most, 1984, p. 297).

As in many developed countries, after the industrial revolution the practice of financial accounting developed in response to the need to standardise the accounting practice. According to Standish (1991, p. 164), from the view point of public interest, adopting a model industry chart of accounts seemed to offer a way to limit the liberties taken by companies with their accounts and to provide a sound basis for controlling the prices and profit margins of cartels and monopolists. The first comprehensive chart of accounts was published in Germany in 1911 by J.F. Schaer, before another German accounting professor published in 1927 *Der Kontenrahmen* which was a proposal and rationale for a model chart of accounts. While France was subjected to German occupation in the early 1940s, the Vichy government in France appointed an interministerial commission, which included representatives of influential organisations in the private sector and a

number of influential public accountants to prepare a national accounting code. Not surprisingly, the resulting code showed many similarities with the Goering plan (*Le Plan Comptable General*) (Standish, 1991, p.165). The French economy was devastated by World War II, and the first post-war French government, faced with the problem of stimulating economic recovery without delay, decided on measures aimed at creating a strong accounting profession to produce reliable financial statements (Most, 1984, p.299). The use of the accounting plan which was introduced by the occupying German forces was seen as the right system for achieving that goal. Also the dominant, large public sector with very limited accounting skills encouraged the new government to revamp an old uniform plan of accounting (Arpan and Radebaugh, 1985, p. 30). The *Plan Comptable General* produced in 1947, was the first comprehensive effort after the country's independence to regulate accounting in France. The plan specifies definitions, standards, procedures, and the forms of financial statements, (Alhashim et al, 1992, p. 30).

Government intervention in the economy is apparent in France. It actively ensures that businesses have adequate capital and will lend or even invest in companies if necessary (Mueller et al, 1987). This is also reflected in the forms of business organisations, where the most important business forms, in addition to state owned enterprises, are the *société anonyme* (SA), which is roughly equivalent to the British public company; the *société à responsabilité limitée* (SARL) equivalent to a British private company; and the *société en nom collectif* (partnership). At present, although the structure of financial reporting in France stems from a variety of sources such as the Commercial Code, social law, company and tax law, accounting standards from the accounting profession, the EU directives, the Stock Exchange, and the National Accounting Plan, the Plan remains the most important source of accounting regulation in France.

2.4.2.1- The National Accounting Plan

In France, there is no FASB nor ASC, to prepare and regulate accounting standards. As a result, there is no set of generally accepted accounting principles. The National Accounting Plan is the most important source for accounting regulations. It is

administered by the *Conseil national de la comptabilité* (National Accounting Council) which lays down accounting standards. The Council's membership includes accountants, industrialists and civil servants. It is organised and controlled by the government through the Ministry of Finance (Nobes and Parker, 1981, p. 68). According to French law, all business firms registered in France are required to keep their accounting system in accordance with the National Plan. The Plan is far from being merely a chart of accounts, it is a very detailed accounting guide. Included within it are definitions of accounting terms, valuation and measurement rules and model financial statements (Nobes and Parker 1981, p. 65). There are three types of accounting standards: procedural, measurement and disclosure. The French *Plan Comptable*, contains procedural as well as measurement and disclosure standards. Procedural standards are concerned with how accounting records are kept and transactions and events are recognised. Measurement standards specify how revenue, expense and balance sheet items can be measured. Disclosure standards refer to rules concerning the descriptions, publication and presentation of information relating to transactions and events of reporting enterprises in aggregated, segmental and special formats. (Wallace ,1993, p.132).

The Plan has been revised many times, notably in 1957, 1970, and 1979, to meet the new needs of the environment. The 1979 revision, was a comprehensive revision made in response to the EEC Fourth Directive. It updated the previous plan's definitions of accounting terms, codes of accounts, valuation rules and the formats for required financial statements. The new plan incorporates a number of accounting principles such as the 'going concern', 'consistency' and 'prudence', and also stressed the importance of compliance with accounting regulations and the principle of fairness.

Under the national plan, each particular group of businesses, such as banks, insurance, and co-operatives, are offered different modified forms to suit their sector character. According to Perera (1989, p. 51) the main objectives in seeking data on an enterprise are:

- ♦ The promotion of more reliable national economic policies;
- ♦ The minimisation of social misunderstandings;

- ♦ Ensuring the availability of data for government studies of market trends; and
- ♦ Assistance to the government authorities in exercising control over the economy.

The chart must be completed each year for national statistical purposes. Tax returns are based on the plan. Published financial statements use the model formats and all the former use the standard definitions and measurement rules. The plan even stretches to cost and management accounting (Nobes and Parker, 1981, p. 55).

2.4.2.2- The Accounting Profession and setting Standards in France

The accounting profession in France is considerably smaller than that in the UK and is differently organised, (Standish, 1991, p.167). It is controlled by professional and government bodies. Professional bodies are divided according to the 1966 law into two organisations representing accountants and auditors respectively, *Ordre des Experts Comptables et des Comptables Agrées* (OECCA), and *Le Compagnie National des Commissaires aux Comptes* (CNCC), (Most, 1984, p. 311). The OECCA is the pre-eminent body which represents the French accounting profession within international associations of accountants, and is linked to the ministry of Economics and Finance. The CNCC is a professional association of official (statutory) auditors, and is organised under the Ministry of Justice. All *Société Anonyme* companies must have their accounts examined by one or more *commissaires aux comptes*. In the more familiar arena of internal control evaluation and audit of annual accounts, the existence of the national accounting code has enabled the CNCC to develop extensive material as guidance for the auditor in the planning and execution of the audit programme. Following the adoption in 1983 into French law of the Fourth Directive, the auditor is required to report whether in his/her opinion the annual accounts show a true and fair view (Standish, 1991, p. 170).

The government bodies consist of the *Conseil National de la Comptabilité* (CNC) and the *Commission des Opérations de Bourse* (COB). The CNC is attached to the Ministry of Finance and this reflects a recognition that accounting standards touch a wide range of economic and social interests, and accordingly that its composition should be

representative of those interests (Standish, 1991, p. 170). The CNC has neither regulatory nor enforcement power. Its decisions relating to the Plan proceed as recommendation for approval by the government through the Ministry for Finance. Its responsibilities are classified by Nobes into:

- ♦ Develop the national accounting plan and make it known to those affected;
- ♦ Publish guidelines on accounting issues relating to the Plan;
- ♦ Consider and, where warranted, approve adaptations of the Plan in the form of industry accounting codes; and
- ♦ Advise on adaptations of the Plan suitable for use in public administration.

On the other hand, COB has been given duties and powers similar to those of the Securities and Exchange Commission in the United States. Its main objective is to ensure the regularity of operations of the stock exchange, and to that end it has been empowered to audit information filed (Most, 1984, p.311). Complaints and accusations against corporations in France are made to the COB which has the right to act in this regard and has the right to obtain access to any corporate documents for which it calls. The COB also concerns the functioning of the *Plan comptable général* and its appropriateness to present-day conditions.

It is clear that the authority of setting accounting standards is in the hands of the government bodies, whereas professional bodies seem to play an important role only in disciplinary and administrative aspects.

As mentioned earlier, although the French accounting system has been criticised for inflexibility to changes, there are scholars who appreciate the outcome of this system. For example, Mueller states that “....The French experiment with rather rigid uniformity seems to have produced desirable results as well” (Mueller, 1967, p. 114). According to Most (1971, p. 15), “France presents us with a well-documented example of the use of accounting for economic development.....We can only point to the fact that there has been, and still is, a widely held belief on the part of competent officials that accounting does have a significant part to play in the economic development of the modern state”.

Furthermore, Standish (1991, p.164), in comparison with standardisation in Anglo-Saxon countries, states that

“.....the greater standardisation of practice engendered by the plan facilitates interpersonal and inter-enterprise communication between accountants and users. In these conditions, the operation of the accounting system, the meaning of accounting terminology and the formatting of annual accounts have a greater degree of inherent predictability than has historically been the case in English-speaking world, where there has been greater emphasis on accounting information as the private language of business.”

In terms of social accounting, France and Germany have led the way. Both countries require companies to disclose information to workers and consumers. Jaggi (1973) believes that the experience of German firms under a statutory approach, will have an impact on social accounting disclosures in other countries. Enthoven (1986) also highlights the benefit of the French uniform accounting system by concluding that “not only has the system proved extremely useful for social accounting and great benefit to French national economics planning; to industries and industrial associations in making necessary economic analysis and for measuring and comparing industrial productivity; and, generally, for improving efficient enterprise administration”.

However, the French accounting system is not free from criticism. According to Most (1984, p. 307), “in spite of the undoubted progress that has been made in France accounting toward giving more emphasis to reflecting economic reality than to satisfying legal requirements, the prevailing characteristics of French accounting are extreme conservatism and dominance of form over substance”.

Scott (1970, p.135-140) has stressed the weakness of the accounting profession in France and West Germany compared with its counterparts in the UK and the US. However, despite the weakness of the accounting profession in these countries, they have enjoyed some of the strongest economic growth in the world. This can also be applied to Japan, which has a weak accounting profession with historically perhaps the highest growth in the world (Arpan and Radebaugh, 1981, p.29). This can lead to the suggestion that the relationship between a strong accounting profession and the role of accounting in the country's economic development is at best very tenuous.

2.5- Summary

The extensive descriptive literature on the history of accounting, suggests that accountancy has not developed as an *absolute* science but as a response to economic and social factors. This was exemplified by the development of double entry book-keeping, which according to de Roover (1956) came naturally and not from any pre-established theory to meet the new and different needs of the environment. Although double entry book-keeping and its technique was first documented in Italy, it spread throughout Europe and the modern business world. This marks the simple and similar beginnings of modern accounting. Much later the development of accounting took different approaches in different countries.

The accounting literature in this chapter has indicated that approaches to accounting regulation are different from one country to another. However, approaches followed by countries in regulating and standardising their accounting system are classified into two broad approaches, i.e., the self-regulatory and the statutory approaches. The main source of accounting regulation in both approaches comes from both private and government institutes which were established and evolved mainly in developed countries, such as the USA, Britain, France and Germany.

The *self-regulatory* approach is in place in many countries with a strong market economic orientation and very limited government intervention. Professional accounting, under this approach, is established to work independently in the process of regulation and standardisation of accounting practices in order to narrow the differences and establish a general framework of accounting. This approach has been widely criticised on the basis that setting accounting standards is not neutral. It is narrowly focused on a limited number of users whose influence on the setting of accounting standards and principles becomes highly apparent at the cost of other users' needs.

The *statutory approach* is generally used more in centralised economies with less developed capital markets and stronger government intervention. This approach has been criticised on the basis that it is rigid with less flexibility. However, many

researchers admire the output of this approach in many countries. Some even went a step further by seeing the application of this approach as a precondition of a centralised economy.

Reviewing an example of the development and mechanism by which these approaches are operated in the UK and France revealed that accounting systems in these countries are highly developed in response to their unique environmental context. Differences in accounting practices, regulations and goals are evident. The efficiency of the accounting systems in both countries has been criticised. For example, despite the continuing and significant resources that have been devoted to developing accounting in the UK, the development of its accounting systems has been criticised by Briston (1978) as inadequate to meet its own environment's needs. The accounting profession in the UK has also been criticised for the lack of independence of external auditors. The shortcomings of accounting in the UK led Standish (1991, p. 190) to claim that "when regard is paid to the many unresolved tensions and difficulties of financial reporting in the English-speaking world, it is not at all evident that France has been disadvantaged by its system for accounting standardisation on a truly national basis". Despite the weakness of the accounting profession in France compared with its counterparts in the UK, France has provided a good example of the role that accounting can play in economic development.

Chapter Three- Accounting in Developing Countries

3.1-Introduction

This chapter aims to provide an insight into questions related to accounting in developing countries in general, such as the potential role of accounting in the processes of socio-economic development in a country, its origins and main characteristics, and the extent to which accounting plays a role in developing countries' development processes.

The chapter begins with a brief discussion of the concept of development and the key characteristics of the prevailing environmental factors in developing countries in general and Libya in particular. The key characteristics of the Libyan political and economic systems will be examined in this chapter for two reasons. First, to investigate the extent to which the common characteristics of developing countries are prevalent in Libya. Secondly, it is believed that such a study can not be meaningful if it fails to take into account the nature and structure of the environment in which the study takes place.

The chapter then pays special attention to the potential role that accounting can play in the socio-economic development processes in a country, particularly developing countries. The remaining part of chapter three reviews literature about the origins and extent to which accounting in developing countries in general has contributed to the process of their economic development.

3.2- The concept of developing countries

To review accounting and its role in developing countries, it may be useful to consider first the nature of development and also to have a brief insight into some aspects of environment factors in developing countries.

'Developing countries', the 'Third World' and 'underdeveloped countries' are terms used in referring to a group of countries that share some elements by which they can be distinguished from so-called developed countries. Wallace (1990, p. 3) reviews developing countries as those countries which can be classified as in the mid-stream of

development. Belkaoui (1985, p. 321) summarised the common characteristics of these countries into six broad categories:

- a) Low levels of living standards;
- b) Low levels of productivity;
- c) High rates of population growth and dependency burdens;
- d) High and rising levels of unemployment and underemployment;
- e) Significant dependence on agricultural production and primary product exports; and
- f) Dominance, dependence, and vulnerability in international relations.

Belkaoui (1985) argues that the combination of any number of these categories in a given country creates a state of underdevelopment. Therefore, development in developing countries is more than an economic process; it involves the economic, social, and institutional processes necessary to efficiently eliminate the major evils of underdevelopment (ibid, p. 322).

3.3- The general characteristics of developing countries

Most developing countries were subjected to long periods of colonisation by developed countries. After their independence, mostly in the late 1950s, they were left with common characteristics ranging from poverty and lack of education to the inheritance of a set of systems that were intended to serve the needs of the colonial master.

Developing countries experience different economic problems. According to Belkaoui, (1985) these problems and policies are either domestic, such as low growth, poverty and income distribution, unemployment, population growth, education, agricultural transformation and rural development, or international, such as international trade and development, dependency on foreign investment and aid, and a new international economic order. Samuels (1990, p. 69) also describes the real problems that are experienced in developing countries such as poverty, unequal wealth distribution, regional imbalances, insufficient domestic saving, large foreign debts, low levels of technology, and a need to improve education. To overcome these problems, developing countries have been continuously striving to raise the level of economic and social

welfare of their population. According to Enthoven (1986), developing countries are engaged in economic and social change.

Political systems in developing countries vary. Very few enjoy stable democratic governments; one-party regimes or other forms of authoritarian government are the rule, (Holzer and Chandler, 1984, p.454). The governments in these countries have faced the need to strive for the best way, economically, socially and institutionally, of bringing their countries to an acceptable and decent level of living and productivity (Belkaoui, 1985). Unlike developed countries, centralisation became the main feature of most developing countries' economic systems. Therefore, it is the governments who have undertaken a variety of economic functions. These include, for example, provision of economic infrastructure and social services, production and distribution of goods and services, planning and co-ordination of economic activities, regulation, direction and control of activities in the private sector and mobilisation of resources, (Enthoven, 1977, p. 70). This picture may have been subjected to a degree of change through the processes of economic liberalisation.

Briston (1984) suggested three major issues of prime importance to all developing countries:

- ❖ the desire to conserve and/or generate foreign exchange reserves;
- ❖ the need to increase the local content of industrial production by using local raw materials and increasing employment and training of local people to take over jobs previously undertaken by foreign nationals; and
- ❖ the urgent desire for economic independence resulting in increasing demand for international enterprises operating in these countries to provide information on technology received from parent companies and the extent of local participation in their equities.

It is the government in many developing countries which takes responsibility for achieving the above objectives, when most of the enterprises are state owned and the private sector is usually small with a limited role in the economic development process. Samuels (1990, p. 69) indicates that developing countries are characterised by a large

inefficient public sector and badly organised capital and money market. The private sector is only responsible for a small proportion of investment decisions.

3.3.1- Economic and political background in Libya

This section highlights some of the key characteristics of the Libyan political and economic systems for two purposes; 1) to investigate the extent to which the above characteristics of developing countries do prevail in Libya; 2) it is believed that such a study can not be meaningful if it fails to take into account the nature and structure of the environment in which the study takes place. According to Puxty et al (1987, p. 273), a concern with the social context is important if accountants are to understand their position and roles in a given society and if the significance of accounting is to be assessed.

Historical literature about Libya indicates that the country has passed through several different economic and political changes. This can be attributed to the Libyan strategic geopolitical location² leading the country to be subjected to different invaders. Thus, the key characteristics of Libyan factors will be reviewed in two main stages; before and after the country's independence.

1- Prior to the country's independence

The colonising power which controlled the country for the longest period was Turkey, ruling from 1551 to 1911. Throughout the Ottoman period, Libya was a poor country. The vast majority of the country's population were dependent upon traditional agriculture which in turn depended on rainfall. Drought years brought many people to the edge of starvation. There was no sign of any infrastructure having been built during the Ottoman period. According to Sergre (1982, p. 82), the country had "no roads, no ports, no rail roads, no building, nothing, nothing, nothing". There was no education programme, and as a result the rate of illiteracy was high (94 percent) amongst the

² Libya occupies a strategic geopolitical location that stems from its linkage between Southern Europe and the rest of Africa, and between the East and West of Africa, with a thirsty vastness of nearly 1,760,000 square kilometres.

Libyan population (Wright, 1982, p. 48). The result of the Turkish political and economic decline left Libya a relatively easy place for Italy to colonise in 1911.

In 1911, Italy invaded Libya, however it was only in 1932 that the Italians gained control over the whole country. Prior to 1932, the resistance was significant and the country was in a state of war. As Italy was planning to create a 'fourth shore' in Libya, they encouraged more than 6,000 families, who were mostly landless and poor Italians, to settle in Libya. It has been estimated that by 1941 more than 110,000 Italians were settled in Libya, requiring the government to develop the country's infrastructure (Segre, 1982).

Libya's economic condition during the Italian period improved from compared with the primitive conditions the Italians found in 1911. However, the economic development was run largely for the benefit of Italians and the Libyans were left in very poor conditions. The International Bank for Reconstruction and Development (1960, p. 27), described the Libyan condition during and after Italian colonisation:

"At the same time the substantial Italian investment in agriculture and industry has contributed to the growth of the Libyan economy as a whole and provided a useful base for future expansion. It must be recognised, however, that the Libyans paid heavily for what the Italians achieved, they were pushed off the best farming land in the country, large numbers of their livestock were lost in the fighting, and their traditional industries suffered severely from competition from Italian products. Moreover, the Italians did little or nothing to prepare the Libyan people for self governance. Education and technical training were neglected, and Libyans were virtually excluded from the administration. As a result, through no fault of its own, Libya has remained heavily dependent on foreign administrative and technical personnel and the training of Libyans to replace them was the most difficult of all the problems associated with economic development".

One of the factors that led to the deterioration of the Libyan economy was World War II, which resulted in serious damage to factories, farms, livestock and infrastructure, leaving the country in a very poor condition. After the war, Libya fell under British military administration.

2- The Post - Independence period

On 24 December 1951, the final decision was taken by the United Nations to give the country its independence. The country became a federal monarchy, consisting of three provinces, namely, Tripolitania, in the north west quarter of the country: Barga (Cyrenaica) in the eastern part of the country: and Fezzan in the west and south west (Wright, 1982). According to the first official census of Libya in 1954, the total population in Libya was 1,088,873.

In the early 1950s, Libya was very poor, and it was considered one of the poorest and least economically developed countries in the world, with a per-capita income of less than \$30 per year (El Fathaly, 1977, p. 16). This was attributed, in addition to foreign colonisation, to the country's topography and climate. Only 5-10 per cent of the country's land could be put to economic use, and was confined to the coastal regions. Partial or total droughts were frequently experienced in the country, because of the low and irregular rainfall. In the absence of alternative opportunities for creating enough employment in the other sectors of the economy, the agricultural sector remained the basic sector of the Libyan economy. During that time (1950s) it was estimated that about 70 per cent of the population was engaged in agriculture and animal husbandry, (El Fathaly, 1977, p. 16). The industrial sector was confined to small manufacturers engaged in processing the local agricultural products such as flour, textiles, tobacco, footwear and clothing. The industrial sector employed only 15,000 - 20,000 people, and was hampered by a number of factors, such as the lack of indigenous supplies of raw materials, skilled workforce, and capital investment. Its contribution to national output was about one tenth of the total (see The International Bank for Construction and Development, 1960, p. 33). The country's chief exports during that period were esparto grass, olive oil and scrap metal collected from the battlefields of World War II (Kezeiri, 1989, p. 152).

Thus, a considerable deficit existed in the country's budget. It was American and British money in return for the use of military bases in Libya, and aid from the UN and friendly countries, which helped the country to survive and overcome the deficit in its budget during the economically severe years of the fifties. It was estimated that more

than LD 113 million a year in total was received as grants and loans from foreign countries and the UN (ibid). Foreign aid also supplied social development and economic reconstruction. This was witnessed through several UN agencies [Food and Agriculture Organisation (FAO), International Labour Organisation (ILO), United Nations Educational, Scientific, and Culture Organisation (UNESCO)], and other specialised agencies operating in Libya (see The International Bank for Reconstruction and Development (1960, p. 44-54). Until the discovery of oil in Libya in 1959, the country remained heavily dependent on foreign financial aid.

1) The discovery of oil

The discovery of oil became a turning point in the country's history and led to a radical change in the Libyan socio-economic position. Although oil was discovered in 1959, it was not until 1963 that the country was able to overcome its deficit and create a surplus in the balance of trade.

Foreign financial aid was no longer needed as before, and the Libyan government started to take the administration of economic development programmes into its own hands, a task that had historically been largely planned and executed by various foreign aid agencies. The main function of The Development Council, which later in 1963 was replaced by the new National Planning Council, was to put together long-term development plans and estimate the annual funds required for each plan.

In 1962, oil revenues rose rapidly and became the dominant sector accounting for 24.4 per cent of the Gross Domestic Product in 1963, 53.7 per cent in 1964 and 61.7 percent in 1969 (Ministry of Planning, 1971: 23-24). Thus it was not difficult in the 1960s for the government to launch the first five-year economic and social development plan. The total actually spent was LD 551 million (more than \$1,500 mn), and was extended to cover the period until 1969. The main priority of this plan was given to infrastructure projects such as public works, transport, public health and education. The industrial sector received only about 4.9 per cent of the actual expenditure (Kezeiri, 1989).

In Third World Countries there is often a shortage of trained personnel to fulfil new economic tasks, and this was the case in Libya. The major feature of the socio-economic structure of the Libyan economy during the 1960s until the eve of the revolution was the dominant role played by foreigners, when the country became an attractive place for them to run their business and carry out the country's programmes. Private ownership existed with minimum governmental interference. The country itself became more integrated into the capitalist world economy (First, 1974).

2) The 1969 Revolution

"Social injustice, ill-considered investment of petro-dollars, corruption and active assistance of western imperialism" were claimed to be the main reasons for the revolution (First, 1974, p. 87). Libya's name was changed to become the Libya Arab Republic. Freedom, socialism and unity were declared to be the principles of the new revolution.

The new regime proclaimed that Libya's ills would be cured, and true independence would be achieved by abolishing inequalities in distributing the country's wealth, and achieving self-reliance in food. In order to achieve these goals there were several radical changes which re-shaped the Libyan economy during the early years of the revolution.

i) The first change started with the evacuation of the foreign military bases and the end of the foreign economic domination when the new government nationalised foreign banks, insurance companies and the local oil product distribution networks of three oil companies. Moreover, the country acquired the majority share in oil production, and changed the Libyan oil price which was undervalued in comparison to similar crude oil exported from other countries (Wright, 1982).

In order to develop the country, the new government launched the first three year plan (1970 - 72) followed by another three year plan (1973 - 75), called economic and social development plans. In March 1976, the country launched another five year development plan (1976 - 80). This was three times larger than the previous plan and was called the

'transformation' plan, designed to bring improvement to the Libyan social and economic structure. The main goals of the plan were to diversify the country's production, reduce the country's dependence on oil to a level necessary for financing the transformation plan, reduce imports, increase the non-oil exports with more emphasis on agriculture, industrial sectors, and expand the economic and social infrastructure (Kezeiri, 1989). Through those three plans, covering a period of 11 years, LD 11,225 bn (more than \$35 bn) was allocated to different sectors, as shown in Table (1).

During the 1970s, the country had no difficulties in raising funds for a development plan as long as the oil revenue continued to flow. During this period more than one hundred factories were established and run entirely by the public sector (Ghanem, 1987). The most serious handicap to economic and social development was the shortage of manpower and capable management, which led the country to remain heavily dependent on foreign labour and companies to implement its plans. It was estimated that about two-fifths of the country's unskilled labour, 27 per cent of skilled and semi-skilled workers, over one third of its technicians, and 58 per cent of management including accountants and supervisory staff were occupied by migrants by 1975.

Although government intervention occurred in most development projects, during the 1970s, the private sector co-existed and flourished benefiting from the credit facilities offered by banks. Its contribution to total investment was nevertheless small with the public sector playing an ever-increasing role in the country's development programme (Kezeiri, 1989, p.151).

ii) The second change which took place after the revolution and gave rise to significant changes in Libya's economic and political structure was in September 1977. This was the implementation of the country's new ideology which was articulated by the Green Book. The change was aimed to transform the country's political system to a socialist system. In Libya, socialist means the 'State of the Masses' or 'popularisation'.

In order to put the new ideology into practice, people were grouped into the Basic People's Congresses (BP Congresses) and Popular Committees (or People's

Committee) (PC) throughout the country in towns, villages and even in workplaces such as public enterprises. The BP Congresses is intended to discuss and decide upon local and national issues, and to select the Congress Secretariat, which is responsible for organising the congress and writing down the decisions made by the participants. The BP Congress also has to select the People's Committee (Executive Committee) for each Secretariat (local Ministries) such as health, economic and planning, treasury and so on. Delegates of the BP Congresses, People's Committees, Union Syndicates and Professional Associations (including the Libyan Accounting Profession) meet annually at the General People's Congress (GP Congress).

The General People's Congress formulates economic and social policies for the country. Implementation of these policies is entrusted to the Secretariat of the General People's Committee (SGP Committee) which comprises a general secretary and fourteen secretaries serving as a cabinet, replacing the former Council of Ministers. During the GP Congress's session, the members of these secretaries are chosen from among all the People's Committees. The SGP Committee, in turn, delegates responsibilities to sectoral secretariats (ministries). Administration is effected through the legal, planning and budgetary processes (UN, 1994, p. 5).

According to the Green Book ideology, private ownership should be cut back. By the late 1970s, the private sector was abolished completely. The public sector became responsible for providing all the needs of society as well as planning, implementing and financing all the development programmes. This is with the cardinal goals of achieving self-sufficiency, self-reliance, and reducing the disparity of the distribution of the country's wealth among Libyans. According to Ghanem (1987, p. 64),

“This situation (nationalisation of private-sector) put tremendous pressure on the state, for it became responsible for providing all the needs of society and for deciding what industry to establish, what commodities to import and from where, and where to sell and for what price. It had to build schools, hospitals, roads, hotels and, with very little exception, all the houses needed by society. Consequently, planning expanded to cover all sectors of the economy and all aspects of social life.”

By the late of 1970s, it was clear that the Libyan socio-economic position had started to pick up. Most of the Libyans' living conditions improved, and the average income per capita increased from 642 LD in 1970 to 2,086 LD in 1980 (Abbas, 1987). This is despite the increase in the Libyan population from 1,088,873 in 1954 to 3,245,000 in 1979. However, the country was far from achieving the goal of self-sufficiency and self-reliance (ibid). This was also reflected in the relative share of manufacturing in GDP amounting to only 2.1 per cent in 1980, and agriculture amounting to less than 1.6 per cent in 1980. As a result, the country remained heavily dependent on foreign markets to meet the local demand for food and other essential needs. This was apparent in the sharp increase in food imports from 66.6 million LD in 1976 to 238.1 million LD in 1979, when total imports increased from 950.8 million LD in 1976 to 2.958 million LD in 1980 (see Ghanem, 1987)

In 1979, when oil revenues soared to more than \$21 billion (ibid), the Libyan General People's Congress was encouraged to launch the second five year transformation plan (1981 - 1985). Its main aim was to achieve a self-sufficiency target by reducing the dependency on oil and increasing product of non oil sectors. About 18.5 billion LD were allocated to this plan with priority to the industrial sector, particularly heavy industry (Kezeiri 1989). The country's financial capacity to meet the plan was hampered by the collapse in world oil prices at the end of 1980. Thus, since 1981, several cuts have been made to the plan and many projects postponed or cancelled.

In 1986, another five-year plan (1986-1990) was launched. About LD 26,437,5 million LD were spent on different sectors. The plan has paid special emphasis to the industrial sector, with 17 per cent of the amount spent on this plan devoted to it (see Table 1).

In all the plans, the main stated objective has been the achievement of self-sufficiency by diversification of the economy and reducing the dependency on oil. However, according to the UNDP/MDP Mission (1994, p. 3) the Libyan economy continues to be highly dominated by the oil sector which accounts for about 25 per cent of GDP, more than 50 per cent of government revenue and more than 90 per cent of exports.

In summary, Libya in the last century has experienced different governments with different political philosophies, and its economic system and conditions have changed, ranging from the inherited problems of independence such as poverty, illiteracy and a lack of basic infrastructure to one of the richest countries in the world. Since its independence, Libya has been under pressure to invest in all aspects of life before any real development can take place. Many development plans were launched (see Table No. 1), with the general aims of building up the country's economy and to remedy the serious problems which have effected the economic and social life in Libya. One of the main objectives of the plans is to reduce dependence on the production of crude oil as the primary source of national income. However, the economy of Libya still depends on the oil sector as a major source of national income (see Table No. 2). Evidence also shows that the country is still largely dependent on imports, although some reduction in dependence on imports has been achieved. Libya still faces a somewhat chronic scarcity of human resources, both skilled and unskilled. According to the last census in 1995, the Libyan population was 4,404,986 with an average growth of 2.8 per cent during the period 1984-1995 (National Agency of Information and Documentation 1995, 1).

Economically, the development plans in Libya are prepared, controlled, and evaluated centrally and a centralised economy is the main feature of Libyan economics. Whilst some private companies recently started to operate in Libya, according to the UNDP/MDP Mission (1994), the characteristics of the economy makes central control and authority the basic feature of its economic management.

Finally, one can conclude that Libya is still a developing country, engaged in a social and economic development programme and will remain so for some time. If the country is to achieve its development objective, there is a need for legislation throughout the country to organise information systems including the reporting of accounting information in such a way as to facilitate the compilation of national accounts, measurement of economic development, development planning and performance evaluation.

Table No (1) Expenditure on development plans, 1970-1990 (Million Libyan Dinars)

sector	1970-72	1973-75	1976-80	1981-85	1986-90	1970-1990	
						Total	%
Agriculture	135.5	555.0	1703.2	1494.1	657.4	4544.7	17.2
Industry	109.1	269.5	1276.7	2067.0	834.7	4557.0	17.2
Oil & Gas	44.6	138.2	363.6	249.5	120.3	916.2	3.5
Electricity	80.3	212.2	1053.2	982.1	413.6	2741.4	10.4
Scientific research	-	-	-	-	9.4	9.4	
Education	54.3	174.8	481.9	695.9	271.5	1678.4	6.3
Information & culture	4.5	14.1	113.3	94.0	36.5	262.4	1.0
Labour force	6.3	15.7	43.4	52.3	72.1	189.8	.7
Health	24.0	46.6	257.0	379.9	175.8	883.3	33.3
Social security	-	16.3	15.9	40.2	12.1	84.5	.3
Sports	-	-	51.5	70.1	23.6	154.2	.6
Housing	149.1	336.1	888.4	1054.9	544.4	2912.9	11.3
Public utilities	91.9	177.2	730.9	1271.3	752.9	3024.2	11.4
Transportation	77.8	226.2	1125.6	1828.6	501.1	3759.3	14.2
Economy	12.4	13.3	137.6	369.1	15.1	547.5	2.1
Planning	1.7	7.8	17.0	35.0	16.2	77.7	.3
Regional development	-	-	-	-	19.1	19.1	.1
Fisheries	-	-	-	-	15.5	15.5	.1
Total	791.0	2203.0	8259.8	10693.0	5491.3	26437.5	100

Source: Secretariat of planning, economic and social development (1970-90), March. 1991).

Table No (2) GDP development in Libya for Oil and Non-oil sectors

	GDP	Oil	Non-oil
1970	1288.3	812.9	475.4
1974	3795.4	2383.5	1411.9
1977	5612.8	3277.9	2334.9
1980	10553.8	6525.7	4028.1
1981	8798.8	4403.3	4395.5
1982	8932.4	4235.8	4696.6
1983	8511.7	3823.6	4688.1
1984	7804.7	3209.8	4594.9
1985	7852.1	3500.4	4351.7
1986	6767.5	2406.2	4361.3
1987	5933.2	1711.6	4221.6
1988	6170.6	1527.2	4643.4
1989	7094.7	1915.5	5179.2
1990	7749.6	2740.8	5008.8
1991	8440.2	2783.2	5657
1992	8774.4	2480.4	6294
Total	114080.2	47737.8	66342.4

Source: National accounts, 1997, p. 29-30.

3.4- Socio-economic development and accounting

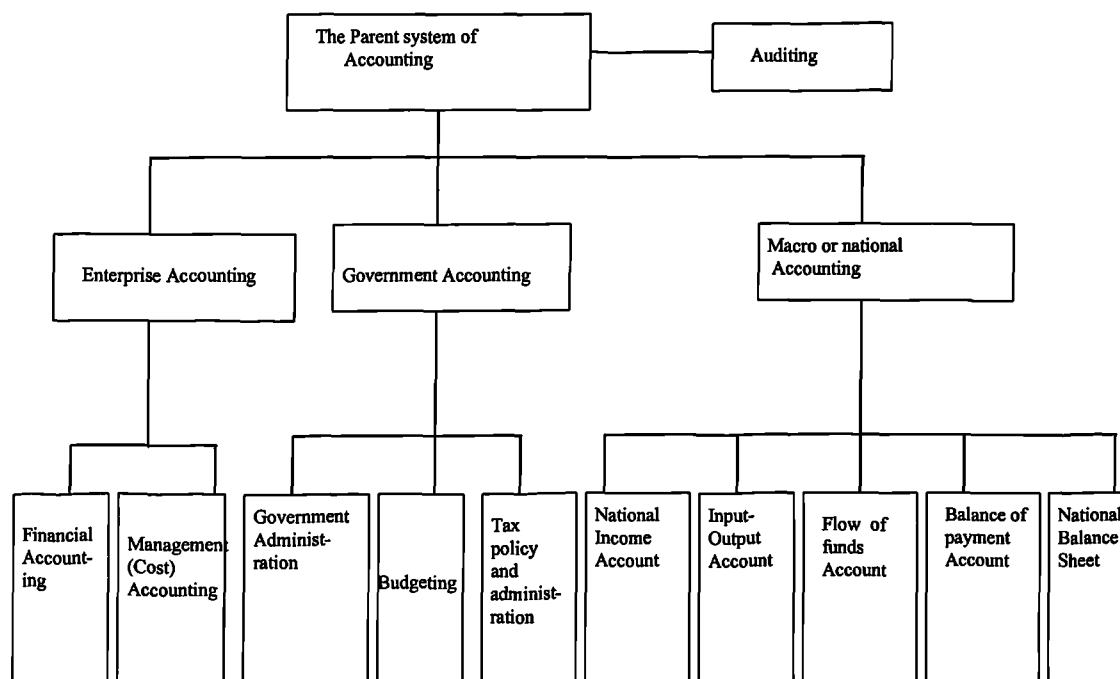
Before reviewing the extent to which accounting has played a role in the development process in developing countries, it is important to highlight some issues concerning the potential role which accounting can play in the process of development. As mentioned earlier, the concept of development means a country's ability to raise the level of economic and social welfare of its population which involves the economic, social, and institutional processes necessary to efficiently eliminate the major evils of underdevelopment.

Although the accounting literature reveals that accounting evolved and developed to a high degree as a result of economic needs, it was only at the beginning of the 1960s that the subject of the role of accounting in economic development attracted increasing levels of attention from accounting researchers (Taylor and Turley 1986, p. 90). Enthoven (1965,70,77,81) is perhaps the pre-eminent writer in highlighting the role of accounting in economic development and the need to achieve relevant accounting education within an economy. He wrote in 1981 that "to date accountants have been reluctant to get involved in socio-economic areas, but logically this is an essential extension and function". Mahon (1965) acknowledges the importance of accounting information in the process of economic development by relating the high standard of living enjoyed by the developed countries partly to their developed accounting and auditing systems. This has led Seiler (1966) to argue that "...the strength and extent of a nation's information system determines in large part the rate at which economic development will progress, and that accounting systems thus assume an important role in the development of emerging nations".

Enthoven (1977) finds that in studying development, accounting is generally identified with enterprise accounting, and therein mainly with financial accounting and auditing. Other significant versions or systems of accounting, such as management accounting, government accounting (covering public sector administration) and national income accounting (covering the national accounts) receive less attention. Enthoven (1977) claims that no doubt both management (internal parties) and external parties share an

interest in all three important accounting branches. The branches or systems of accounting (enterprise, government and national) not only play a significant role separately, but in essence are interrelated (see Figure 2).

Figure (2) The Accounting Information Measurement System.



Source: Nobes and Parker (1981, p. 219).

Enthoven (1977, p.133) concludes that “most countries can no longer practice accounting in a fairly narrow stewardship sense but will have to visualise accounting as *a dynamic information measurement and reporting system* of use for micro and macro economic activities and decisions”. Thus, the role of accounting information in a country's development is expected not only to be positively associated with the existence of the above accounting branches but also with the effective linkage among all of these branches.

Perera (1989, p. 144) supports the need for those accounting branches to be integrated, particularly in developing countries, in order to play an efficient role in the development process, by saying that "in a developing country, there is a need to formulate a comprehensive system which is capable of accumulating all accounting related information so that it can be used as the main data base for economic decision making at

various levels. Integration of the different branches of accounting external reporting, management accounting, national income accounting, balance of payments accounting and so on, is important".

It is perhaps important to notice that reviewing the accounting literature in chapter two, particularly the work of Briston (1978, p. 106), reveals that accountancy in the US and the UK has tended to be concentrated almost entirely upon the enterprise sector, and even there the emphasis has been upon financial accounting and auditing to the virtual exclusion of management accounting. Briston (1981, p. 633) also argued that, generally speaking, until the middle of the nineteenth century, management accounting was very much in its infancy and its subsequent evolution was distorted by the bias towards the provision of information for the annual report, rather than with the view to the needs of managers for decision-making purposes. He added that this bias has dominated the accounting profession right up to the present day.

A primary objective in many societies is the maintenance of stable and flourishing economic growth. Although many factors are expected to contribute to achieving the above national objectives, accounting at both macro and micro levels is expected to play a significant role by providing the required information. This section highlights some aspects of the potential role of accounting in the process of development or growth of a country.

3.4.1- Accounting, development planning and resource allocation

It is perhaps true to say that any country encounters resource allocation dilemmas, when it is faced with virtually unlimited wants and needs. Unfortunately, the means of satisfying those wants and needs (resources), are in very limited supply. Therefore, the economic development or growth of a country depends mainly on improving the effectiveness and efficiency of the economic planning or programming with which the country's scarce economic resources are utilised. The 1965 UN Conference on Planning highlighted that "it is an integrated task of planning to achieve the best possible use of scarce resources for economic development" (1965, p. 12).

Development planning is an important tool for resource allocation in developing countries in general. The need to use appropriate criteria for selecting projects arises because of the failure of the market mechanism to provide proper guidelines. In those countries with an effective capital market such as the UK, a significant part of the countries resources are allocated through the mechanism of a free-market. Belkaoui (1985, p. 335) argues in this regard that:

“Development planning is generally accepted as essential to the economic development of the developing and even some of the developed countries. The need for planning in the developing countries is accentuated by the “failure” of the market in those countries to price factors of production correctly.”

Adequate and reliable information provided by the different accounting branches is expected to meet a significant part of the data demands of planners at both micro and macro levels, leading to a more efficient utilisation of resources within a firm and the country. Meigs et al (1982, p. 2) state that “Good accounting and financial reporting aid society in allocating its resources in the most efficient manner..... Inadequate accounting and inaccurate reporting, on the other hand, conceal waste and inefficiency and thereby prevent economic resources from being allocated in a rational manner.” Accounting is one of the tools conditionally available to improve the function of the development process. If development consists of a more efficient allocation of resources, accounting techniques may improve both the allocation process and the efficiency of some of the resources (Seidler, 1967, p. 8).

Focusing mainly on increasing the supply of capital would represent the wrong approach to achieving faster growth (Kamarck, 1970). As there is no single path to economic development that can be followed by all countries, in each country before any plan is adopted, alternatives have to be outlined, measured and weighted, and the priorities for the use of resources established. Accounting is expected to have a potential role in all of these stages.

According to Frank and Russell (1966, p. 360), Tinbergen (1967, p.76) and Belkaoui (1985, p.336), the process of drawing up a development plan can be divided into three

basic stages: (i) The aggregate stage (macrophase stage); (ii) The sectoral stage (middle phase); and (iii) The project stage (microphase stage).

The macro stage involves dealing with only such overall figures as the national product and capital, total investments, imports and exports, total state expenditure and the current value of total assets. To implement this task macro information covering these aspects is required. Frank and Russell (1966, p. 362) state that “at the aggregate stage, social or aggregate accounting techniques will prove most useful”. Clearly, national accounting can be one of the main sources of this information. As enterprise accounting as well as government accounting are the main bases for preparing national accounts, the importance of integration and co-ordination between accounting branches is self explanatory. This can be reinforced when it is realised that most of the data used in national statistics, come directly or indirectly from business reports.

The sectoral stage involves the translation of the first stage by setting targets for each individual sector of the economy or to allocate the overall investment target to the individual sectors. An input-output table which specifies the relationships between sectors might be especially useful in making sectoral projections (Frank and Russell, 1966, p.371). Preparing the input-output tables encompasses first, the need to adjust and classify the accounts of various companies and second, to adjust manufacturers' accounts. Information that is provided by enterprises' accounting is the cornerstone for preparing the input-output tables (Enthoven, 1973, pp. 335-6).

The project appraisal stage involves making a more detailed picture by dealing with separate projects and even smaller geographical regions. Project appraisal requires extensive present and future data, and direct and indirect quantification and measurement. According to Belkaoui (1985, p. 337), this stage rests to a large extent on the use of cost/benefit analysis, when the main objective of cost/benefit analysis is to determine whether a particular expenditure is economically and socially justifiable. Belkaoui (1985, p. 339) argues that benefits should measure the value of the additional goods or services produced or the value of cost savings in the production of goods or

services, while costs should measure the value of real resources displaced from other uses.

The benefits and costs are valued in a competitive economy on the basis of market price, whereas in countries with a non-competitive economy, prices do not reflect the value of the market, and so shadow prices should be used. A significant part of the information needed at this stage is expected to be available in the enterprise accounting records and accounts.

In most of the above processes, decisions are generally expected to be taken under a high level of uncertainty. Obtaining relevant and reliable information by those planners will help in reducing the amount of uncertainty surrounding the economic choices that must be made (Mirghain, 1982, p. 59). Moreover, a framework which establishes an effective linkage between micro-accounting and macro-accounting is shown to be an important tool in providing an effective role for all branches of accounting in the country's development planning process.

3.4.2- Accounting and monitoring development plans

The task of development planning does not end by drawing up a general or specific plan, it is in fact a *dynamic process*. Controlling and following up the plan is also an important task in order to monitor the progress of the plan and to make the necessary changes that are needed to continue its existence. Checking for overall consistency in the plan should be carried out by the central planning bureau, thus feedback information is expected to be highly important for achieving adaptive capability. According to Gordon (1974, p.88), the major function of feedback information is to control the system's output. Output can therefore be considered a focal point in controlling a system's operations.

Accounting information at both micro and macro levels is expected to provide a great deal of the essential information on the above matters. An accounting system is considered an *open system* and has the capability to adapt to changes in its environment, according to Ronald et al (1972, p. 767), this makes a feedback loop vital in the

accounting information communication process and therefore accounting can be treated as both a transmitter and receiver of information signals. Mirghani (1982, p. 66) argues for consistency between micro-accounting and macro accounting, regarding the definitions, measurement base, unit of measurement, and the basis of accounting of the input data necessary for obtaining information on certain economic constructs that would be needed for evaluating the country's economic performance or for monitoring the progress of a development plan .

3.4.3- Accounting and economic development finance

The finance for economic development can be met through a variety of ways. It is difficult to find any finance activities, without the involvement of accounting. For instance, as the taxation system consists of two closely linked areas, tax structure formulation and tax administration, accounting plays an important role in designing a sound tax policy, which further requires an understanding of social accounting. Accounting also has a significant role in administering the tax system by improving the flows of accounting information within tax paying entities and between the government and taxpayers. According to Enthoven (1977, p. 32), accounting can improve the organisation of both the tax administration and taxpayer, enabling more equitable and effective tax policies and procedures to be executed. Furthermore, accounting is able to assist in appraising the best forms of taxation to achieve the necessary objectives. Developing a taxation system that is easy to administer, along the lines of the adopted accounting system in the country, is more likely to assist the government in increasing its revenues. The AAA Committee Report on International Accounting Operation and Education, 1975-1976 (The Accounting Review, supplement to volume 52, 1977, p. 74) indicated that:

“Since no tax system can be effectively administered without proper accounting and qualified personnel, inefficiency, abuse, and dishonest in the handling of public funds result... It should be obvious that adequate accounting in the business community and effective accounting control and administration of public funds make important contribution towards the financing of development programmes.”

In regard to capital formation, in the last two decades an increasing number of developing countries have concluded that the establishment of financial institutes, primarily a stock market, is critical for the generation of the requisite capital for economic growth. Thus, the wave of privatisation which swept the developing countries in the last decade can be explained in part as a response to this realisation, when coupled with external agency (e.g. World Bank) pressure for liberalisation of markets. Accounting information has been seen as one of the main factors for the success of any securities market, particularly in newly developed securities. Seidler (1976, p. 153) argues that “in creating a capital market, accounting provides the means and incentives for investing voluntary saving in new ways, so that a larger volume of such saving is placed at the disposal of entrepreneurs willing to invest in new or existing enterprises”. Sedaghat et al (1994, p. 306) added that “accountants and accounting information and financial reporting generally play an important role in enhancing and supporting both the privatisation process as well as the development and growth of securities markets”.

The accounting role is highly evident in all of the credit process. Accounting information is needed, for example, in determining such things as the amount needed, evaluating the alternative options and the ability to pay back.

3.4.4- Accounting, accountability and social responsibility

According to Ghartey (1993, p.169-70), accountability is one of the fundamental prerequisites of the development process. However, development processes, particularly those in developing countries, constitute a social and economic development programme (Enthoven, 1977). The question which may arise here concerns the role of accounting in achieving accountability and social responsibility.

Before reviewing the relationship between accounting, accountability and social responsibility it is important to understand the meaning of accountability. According to Rosenfield (1974), accountability is the report on the control and use of resources by those accountable for their control and use, to those to whom they are accountable. The Royal Commission of Financial Management and Accountability defines accountability, however, as “the fundamental prerequisite for preventing the abuse of delegated power

and for ensuring...instead, that power is directed toward the achievement of broadly accepted national goals” (Kelly and Hanson, 1981, p.1).

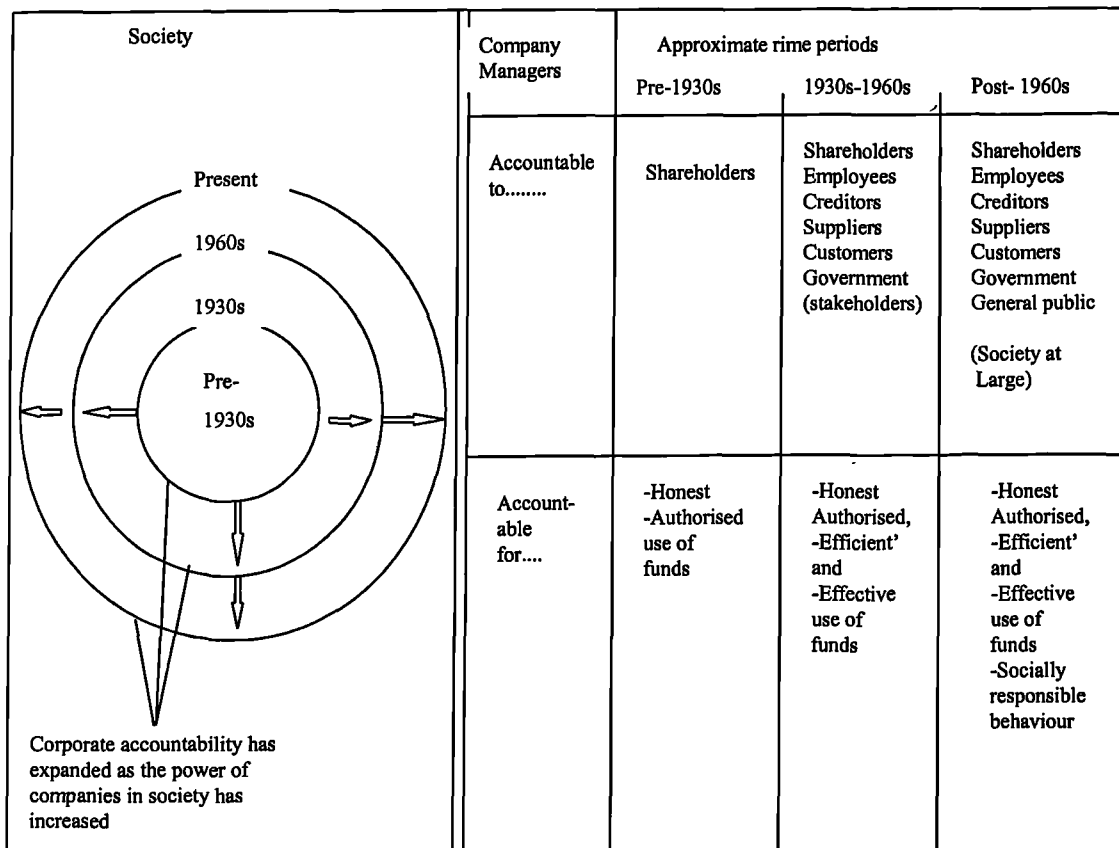
Although accountability is defined in different ways, clearly two parties are always involved in the concept of accountability, in which one party is accountable to another. According to Ijiri (1975) "accountability presumes a relationship between two parties, namely someone (an accountant) is accountable to someone else (an accountee) for his activities and their consequences".

In the same way that the influence of accounting on economic development has been reviewed, it is necessary to review the link between accountability and economic development. Ghartey (1993, p. 182) states that "... accountability is one of the fundamental prerequisites of the development process". According to Ghartey (1993, p.169-70), this is because "effective and efficient utilisation and management of resources falls within the domain of accountability...The allocated resources are accounted for by monitoring, controlling, and reviewing appropriate records, functions and activities to evaluate and report on the effectiveness and efficiency of resource utilisation".

Accountability is seen as one of the primary roles of accounting. For example, Cohen (1978, p. 3) argues that "providing information is not the only function of accounting, the achievement of accountability is also equally important and a fundamental function which distinguishes accounting from other information systems in an organisation or in a society".

The traditional view that the primary function of corporate reporting is a stewardship function (Wixon, Kell & Bedford, 1970; Ronen, 1979, p.147) has been criticised as focusing narrowly on the shareholder/manager relationship (Beaver, 1981, p.2). Thus, the term stewardship is gradually replaced with a new term 'accountability' which is used in a broader manner (see Figure 3), It incorporates the need to report to stakeholder groups (such as bondholders, shareholders, customers) or even the entire society (Porter, 1989, p. 51).

Figure (3). Growth in corporate accountability.



Source: Porter (1989, p. 50).

The dynamic development of accounting in response to its social needs, has led the boundaries of accounting, especially in recent decades, to be expanded to accommodate the increasing public and international concern for the social consequences of the policies and performance of organisations and public officers (Ghartey, 1993, p. 170). According to Tower (1993, p. 67), "the accountability paradigm is seen as the best approach to pursue society's intermediate goals, such as the equity and efficiency criteria. This is because under an accountability model, corporate reports would provide more appropriate information through a broader societal perception".

Thus, within the concept of accountability, the interests of some users do not assume more importance than the interests of other users. The needs of shareholders and financial market investors are not the only ones that are considered. It is the need of society and the public that dominate. This is also confirmed when Gray (1991) argues that "the accountability approach is a social concept, rather than a concept limited to

economic matters". This has also led Abu-Baker and Green (1995, p. 14) to conclude that the accountability approach can be seen as an approach within which more socially oriented information is likely to be provided by the company.

Most developing countries are engaged in a social and economic development programme (Enthoven, 1977). There is a growing consensus that companies need to be socially responsible. For example, Wallace (1993, p. 137) argues that "enterprises operating in a certain country are expected to be socially responsible. Such a responsibility in a developing country requires a contribution to the national goals and aspiration". Business managers are also considered to be responsible for both achieving economic goals and for behaving in a socially responsible manner (Chen, 1975, p. 541). To meet this responsibility, companies should provide complete and relevant information to those to whom they are accountable. According to Gray et al (1987, p. 89), "accountee groups that have a bond of accountability are thought to have a greater right to corporate information". They feel that consumers, employees and the local community all qualify as recipients of this higher standard.

Therefore, companies in developing countries are accountable not only to the owners, but also to all parties that have legitimate rights in these companies. Tower (1993) states that companies in developing countries are accountable to the public. Samuels (1990) also refers to other aspects of a corporation's interaction with the staff, the community, and the general public that are of interest.

Accountability presumes that there are methods and processes at the disposal of a private citizen to complain against the state, a corporation or a fellow individual in society, and that the complaint will be heard and acted upon without prejudice. Thus, social responsibility accounting and reporting seek to provide the public with the information they need to ensure that their personal and/or group rights and privileges are reasonably protected, or to complain if they are dissatisfied (Hurwitz, 1981, p. xi).

Samuels (1990, p. 79) stresses the importance and relevance of social reporting and disclosure to the social and economic development problems in developing countries, stating that:

“We are not opening up the ‘corporate social reporting’ debate. Although social responsibility accounting, would seem to be particularly relevant to developing countries”.

In an attempt to match the major problems of developing countries and the accounting statement that could provide significant and relevant information to the understanding of these problems, Samuels (1990, p. 79) suggests the relationships noted in Table (3).

Samuels (1990, p. 79) continues:

“....there is already information available within a business enterprise, which is not being disclosed, which is 'relevant' to the debates on the development problems of the country in which the business operates. Production of the statements.. (e.g., regional flow of funds statement, Statement of transactions in foreign currency, income and wealth distribution, and employment report) would provide much of this information.”

Table No (3) Major problems of developing countries and types of accounting statement that would help in their solution.

	Problems	Relevant accounting reports and statements
1	Economic Growth	a- Profit and Loss account b- Balance sheet (with notes) based on inflation adjusted figures
2	Unemployment	Employment reports
3	Balance of payments	Statement of transactions in foreign currency
4	Income/wealth distribution	a- Adapted value added statement b- Analysis of shareholders
5	Level of Technology	Education/training report
6	Regional imbalances	a- Regional flow of funds statements b- Regional distribution of assets
7	Safety/security	Employment report
8	Impact of environment	Special report
9	Corruption	audit report

Source: Samuels (1990, p. 80)

Walker (1988, p.178) lists the social benefits which could be obtained from improved public information: better risk sharing, enhanced real production/investment decisions, lessened private information production cost, better management decision-making and reduced insider-trading cost.

Samuels (1990) states that “it is argued by those requiring greater accountability that a corporation in order to fulfil its responsibilities, should disclose information on issues such as: staff, the community, and the general public that are of interest”. This is also confirmed by Tower (1993, p. 72) who interprets the fulfilment of the reporting obligation for public accountability as, “the responsibility of an entity to communicate data to its stakeholder groups in recognition of the bond of accountability which exists with such groups. This involves the rendering of an account of both a *financial and non-financial* nature. The data to be communicated will be dependent upon the changing needs and expectations of society. The dynamic nature of this communication needs to be safeguarded through institutional democratic processes. Since market forces cannot be relied upon to discharge this social responsibility, regulation is considered an important instrument in obtaining these means”. This perhaps strengthens the case for considering a "French" style regulated uniform accounting approach as a model for developing countries to use in structuring accounting systems.

The claim that corporate reporting in developing countries should be oriented to provide information needed in both economic and social aspects falls in line with the aims of corporate social responsibility and accountability.

3.6- A critique of accounting and its role in developing countries

The question which may arise here is whether developing countries have succeeded in developing their own accounting systems, capable of meeting the respective needs. Briston (1978) reported “so far no developing country has been able to construct a system of accounting designed primarily to meet its own information needs”. The question is then what accounting systems these countries are implementing. According to Enthoven (1973) “Ironically, most developing nations have chosen to engage in the

erroneous and often regrettable practice of “importing” accounting systems from developed nations”.

Just as the accounting system of developed countries can be broadly classified into Anglo-Saxon and non-Anglo-Saxon systems, so can the accounting system inherited by many developing countries (Wallace, 1993, p.125). Most developing countries have adopted a particular reporting practice, sometimes without any particular thought as to whether it was the best system for that country.

Researchers identified several means and ways through which the accounting of developed countries has been transferred to developing countries, for example, Nobes and Parker (1981 and 1991) attributed the spread of accounting ideas to a) trade; b) the influence of economically powerful nations; c) the spread of multinational businesses, multinational banks and accounting firms, d) international agencies, e) international conferences and f) education and research. Samuels and Oliga (1982, p. 69) also have the same view and state that “an examination of the sources of existing accounting systems in most developing countries reveals that those systems were for the most part either imposed by powerful foreign investors or extended from the home to the host countries through the influence of multinational companies, foreign aid, and education”.

A number of ways of transferring accounting systems from developed to developing countries have been suggested in the literature, (Needles, 1976; Parker, 1989; 1991; Belkaoui, 1988). Agreement is clear that colonisation was the most important vehicle for the transfer of an accounting system to developing countries (Hove, 1982). Almost every former British colony has an accounting profession and financial accounting practices that are mirrored on the UK model. Former colonies of France and Germany have been similarly influenced by their respective ‘mother counties,’ though not quite so profoundly as those of the United Kingdom (Mueller et al, 1987, p.12). It is important to note that it is not only the profession of accounting in western countries which is responsible for the spread of their accounting systems in developing countries. The UK Companies Acts were enacted to be applied to all British incorporated companies. General forms of UK company law were established around the world in colonies and

territories of the British Empire (Most, 1977). This, of course, has direct influence on the accounting orientation in these countries, for example, in Zimbabwe, and quite possibly in the rest of Anglophone Africa, the UK Companies Act of 1948 is the basis of corporate legislation, including financial disclosure requirements. Although the UK has had several amendments to that Act, in response to changing requirements in UK, the act has largely remained the same in the former colonies (Hove, 1986).

In regard to the general role of accounting in the process of the development in developing countries, Mirghani (1982, p.57) states that “in the majority of developing countries, there is a lack of awareness of the potential significant role that accounting could play in the economic development process”. Therefore, the need to develop or modify accounting systems to provide relevant and accurate information in these countries is not expected to receive enough consideration. This will lead the role of accounting at both the micro and macro level to be less active in the country’s development process. A study made by the American Accounting Association (AAA) Committee (1976) about accounting in developing countries indicates a lack of adequate financial reporting in these countries.

Enthoven (1977, p.44) assesses the role of accounting in developing countries theoretically according to the standards of their accounting information. He finds that the amount of economically useful information generated by the enterprise accounting system for decision making is often scant, unreliable and untimely. Consequently, the system and its internal and external financial reports are not relied on to any major degree by investors, bankers, national statistical institutes, government or even management. This is also revealed by Enthoven (1980, p. 76) who says that:

“Accounting generally lacks consistency and relevance in both its practice and theory, which makes it hard to compare financial statements, pin-point capital needs, construct effective budgets, measure efficiency, prepare feasibility studies, etc. Financial statements may reflect inadequately the various components, and their presentation may be delayed for years”.

Dominguez (1976) states that:

“Many sectors of society do not properly recognise the part that accounting has to play in enterprise management, and they have

not made appropriate use of it..... Financial accounting is often limited to the deficient recording of transactions; it is rudimentary and not kept up to date. It is maintained solely for the purpose of satisfying the formalities required by law and the tax authorities. The information provided by such records is consequently of little value in assessing the performance of an enterprise. Accounting methods and practices are usually outdated, even anachronistic, and there is no consistency in their application. In fact, accounting is not organised in such a way as to provide useful information. Most of the countries have not adopted - in some cases they have not even made efforts to adopt - a body of accounting standards to govern the recording of transactions and the presentation of financial statements. Accounting literature from the more developed countries has had considerable influence, but this in itself is a problem because the developed countries have different practices for recording the same transactions. Add to this variances introduced locally, which quite often have not been based on sound technical grounds, and the problem of standardisation is compounded.” (quoted from Enthoven, 1981, p. 226)

Further evidence for this can be found in the literature, for example, Mahon (1965) reveals the unreliability of accounting data provided by the financial statements in developing countries. Seidler (1967, p.653) also reported that “in a number of the less developed countries, information systems which provide reliable financial data are few in number...each time a production, pricing or investment decision is made without adequate knowledge of its consequences, the probability of misdirected efforts, wasted resources and economic loss is increased”.

Given the deficiencies in the financial accounting and reporting systems, it is not surprising that management accounting as practised in developed countries rarely exists in developing countries (Holzer, 1984). In many developing countries the value of cost accounting as a basis for pricing policy; operating, income and performance measurement; product and cost control; budgeting; internal organisation and productivity is rarely adequately understood (Enthoven, 1977, p. 45).

The unavailability of reliable information or the unreliability of available information became one of the major roadblocks for effective development planning in developing countries (Mirghani, 1982, p. 60). This can be said to be the case at both micro and

macro levels. Due to the unreliability of accounting information in developing countries, Samuels (1990, p. 69) says that “where decisions in developing countries are made on rational grounds there are two dangers: one that the information provided is misleading and the other that the information is incomplete”.

It is important to note that although in the accounting literature many writers acknowledge the vital role played by accounting in developed countries (e.g., Mahon, 1965; Seiler, 1966; AAA, 1976), the relationship between good accounting and growth of business and economic development has not yet been empirically proven.

3.6- Summary

The historical and accounting literature in this chapter indicated that most developing countries were subjected to long periods of colonisation by developed countries. After their independence, mostly in the late 1950s, they were left with common characteristics ranging from low growth, poverty, unequal wealth distribution, low levels of technology, and lack of education to the inheritance of a set of systems that were intended to serve the needs of the colonial master. Libya was not an exception because most of the above problems were evident in the country. It has been continuously striving to raise the level of economic and social welfare of its population and achieve economic growth by engaging in economic and social development programmes. The chapter indicated Libya is a developing country and will stay that way for some time.

Although achieving the countries' development objectives relied on many factors, a complete information system which can provide a rational basis for decision-making, is highly significant. The accounting literature in this chapter has also indicated that, accounting has a significant potential role to play in providing the required information at both macro and micro levels in a country. There was general agreement between researchers that accounting is one of the main tools in providing information to achieve effective socio-economic growth in a country, particularly in developing countries. Good accounting aids society in many aspects including the allocation of its resources in the most efficient manner, the control of the development plans, the finance of

economic activities, and accountability and social responsibility. This was reinforced by the absence of the market mechanism in most developing countries to provide proper guidelines, which include the pricing of factors of production.

Modern accounting (including standards and regulations) evolved and developed in developed countries through private and government institutes. The material of this chapter indicated that there is considerable evidence that the standards and regulations of these institutes have extended beyond the borders of their countries. Arguably, so far no developing country has developed its own accounting system. Accounting systems that are implemented in developing countries are largely transferred and adopted from developed countries. According to Carsberg, the Secretary General of IASC (1998, p.6), no one nation has a set of accounting rules which appear to have such clear merits that they deserve adoption by the whole world. No one country can claim to have a uniquely correct set of rules. In many cases, developing countries seem to be continuing to adopt one of these regulatory approaches, despite the fact that the role of accounting and its objective in developing and developed countries tends to be different.

Many means have been suggested for the transformation of accounting practice, such as, foreign investors, multinational companies, aid agencies, international accounting firms, professional accounting bodies and education.

The accounting literature has also indicated that despite the urgent need for accounting services in developing countries, in many of these countries, there is an apparent lack of awareness of the potentially significant role that accounting could play in the economic development process at both micro and macro levels. Thus, accounting systems in these countries seem to have played a limited role in the socio-economic development process.

**Chapter Four- The relationship between accounting
and its environmental context with particular
reference to culture**

4.1- Introduction

The previous chapters have established accounting differences between countries, and also indicated that despite the potential role of accounting in the development processes, in most developing countries, the role of accounting seems to be limited. This chapter pays particular attention to some key studies of the relationship between accounting and environmental factors, particularly cultural, and how the latter can influence accounting. This aims to highlight, theoretically, the possible answers to such questions as why differences in accounting arise between different countries and why the accounting systems of developed countries adopted by many developing countries have not been entirely successful. According to Samuels (1985, p. 9), anyone wishing to study and research international accounting today who ignores how we have arrived at such a rich variety of accounting practices is making a serious error.

This chapter is divided into two sections. The first section is concerned mainly with the question of how accounting differences came about, initially by reviewing international classification studies of the accounting systems on the basis of a variety of environmental differences and the role culture may have in explaining variations in accounting practices. Having identified the significance of culture within the classification process it is necessary to examine the nature and definition of culture in more detail. The section concludes by an examination of the possibility of measuring culture on a number of dimensions.

The second section reviews the literature that explains the influence of culture on accounting. The section is focused on the influence of culture on accounting through the processes of professionalisation and regulation, and particularly the development of Gray's framework (1988) to measure the impact of culture on specific accounting practices. The remaining section will review a number of studies which have used Gray's theoretical framework in explaining the differences in accounting practices and standards among different nations.

4.2- How accounting differences come about

4.2.1- Classification studies

As a result of increasing economic activities among countries in the world and the rise in the number and size of multinational companies, the need for accounting information that is capable of crossing national boundaries has long been felt. Many organisations such as the IASC, the UN and the EU have addressed the call for the harmonisation of the accounting standards to be eventually recognised. Harmonisation is defined as a process of increasing the compatibility of accounting practices by setting boundaries to their degree of variation (Nobes and Parker, 1991, p.7). To achieve harmonisation, one needs to find explanations for differences and similarities in accounting practices.

In the last three decades, research has been carried out aimed at facilitating an understanding of the reasons that lie behind the differences between different countries, especially the Anglo-American and Continental European countries (examples of such efforts include, Previts, 1975; Seidler, 1967; Buckley, 1974; Mueller, 1967-68; AAA, 1977; Frank, 1979; Nobes, 1983; Nair and Frank, 1980). These classification studies of accounting systems between countries were partly implemented as a method of facilitating the achievement of harmonisation (Nobes, 1984, p. 28). These classifications resulted in different groups or clusters.

A general review of these classification studies reveals that two approaches were found to be adopted by the researchers in this regard, the deductive approach (e.g. Mueller, 1967,1968; Zeff, 1972; AAA, 1977; Nobes, 1983,1984) and the inductive approach (e.g. Frank, 1979; Nair and Farnk, 1980; Goodrich, 1982; Belkaoui, 1983).

1- Deductive Studies

Using the deductive approach, Mueller (1967) stresses that the types of accounting rules which exist in a country are the product of economic, political and other environmental factors which have determined the nature of the system. He provides a useful starting point in analysing the environmental factors by identifying four distinct approaches to

the development of accounting in western nations of market orientated economic systems. These are:

- a) Accounting within a macro economic framework. In this case, accounting has developed as an adjunct of national economic policies. According to Nobes (1984), financial accounting expected to stress value-added statements and to include social responsibility accounting. Sweden is said to be an example;
- b) The micro economic approach. This approach can prosper in a market-oriented economy, where accounting is viewed as a branch of business economics. The influence of microeconomics has led accounting to try to reflect economic reality in its measurements. The Netherlands is suggested as an example;
- c) Accounting as an independent discipline. In this case, accounting has developed independently and away from governments or economic theories, whereby accounting is viewed as a service function and an integral part of business practice. According to Nobes (1984), theory is held in little regard and turned to only in emergencies or used ex post in an attempt to justify practical conclusions. The USA and the UK are referred to as examples;
- d) Uniform accounting, where accounting has developed as a government's efficient means of administration and control of business. Accounting can be used to measure performance, allocate funds, assess the size of industries and resources, control prices, collect taxation, manipulate sectors of business, and so on. France is pointed to as an example.

Although the strength of Mueller's classification was its basis on underlying economic, political and other environmental factors, the classification was criticised by Nobes (1983) as there are only four exclusive groups and no hierarchy, consequently reducing the usefulness of the classification.

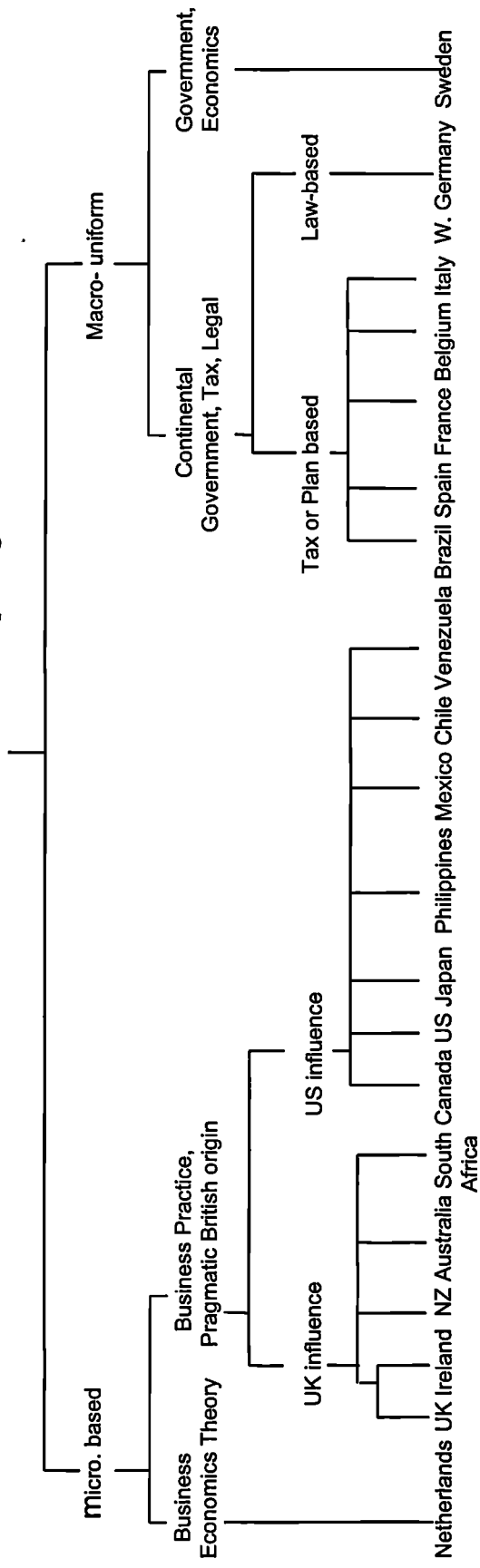
Based on the business environment and other factors such as the legal system, political system, and social climate (but without a precise specification) Mueller (1968) carried out a further classification study. He made the point that different business environments need different accounting systems and that this should be considered

when trying to change or standardise accounting. Mueller's second classification (1968) reveals ten groups:

- group (1) Including the United States, Canada, and the Netherlands;
- group (2) Including the British Commonwealth (excluding Canada);
- group (3) Including West Germany and Japan;
- group (4) including Continental Europe (excluding west Germany, the Netherlands and Scandinavia);
- group (5) including Scandinavia;
- group (6) including Mexico;
- group (7) including South America;
- group (8) including Developing countries of the Near and Far East;
- group (9) including Africa (excluding south Africa); and
- group (10) including Communist countries.

Nobes (1983) criticises Mueller's classification on the basis that it is not a classification of financial reporting and is perhaps too general to be of help. Nobes (1983, 84) adapted Mueller's analysis as a basis for a classification which divided western capitalist countries and their accounting systems into two broad categories as presented in figure (4): micro-based systems and macro-uniform systems. According to Nobes's findings, the Anglo-American countries are grouped as micro-business practice based systems, whereas the European countries, with the exception of the Netherlands, are grouped together as macro uniform systems. Accounting practices concerned with measurement and valuation in the developed western world were the basis of these classifications.

Figure 4 Nobes' Classification of accounting Systems by Practices
Financial Reporting Practices



Source: Reproduced from Nobes (1984, p. 67)

Another deductive classification study was made by the American Accounting Association (AAA) in 1977 based on morphology. The study resulted in the categorisation of five "zones of influences":

- ♦ British;
- ♦ French-Spanish-Portuguese;
- ♦ Germanic-Dutch;
- ♦ United States; and
- ♦ Communistic.

Although the study did not carry out any empirical testing of their morphology, it refers to the political system and economic system as vital environmental features for the subsequent or observed accounting.

2- Inductive Studies

The inductive approach was based on a statistical analysis of reporting practices in a sample of countries. Most of these inductive studies use the Price Waterhouse data of 1975, which comprised information on over 200 accounting practices relating to various countries. One of the earliest classification studies was conducted by Seidler (1967), who proposed that accounting practices have generally followed the lead of "mother" countries, identifying three models as the British model, the American model, and the French (continental European) model. According to Seidler, the recipient country adopted accounting practices based on their traditional, colonial or political associations with the mother countries.

Frank (1979) provides an important contribution by making a statistical analysis of accounting practices in different countries. He hypothesised that environmental factors could play a significant part in explaining the differences and similarities between the countries of his study. Eight environmental variables, including language, were used to examine the classification effect. Measurement and disclosure practices were found to be the main different patterns of development. Frank's classification study resulted in four groups (see Table 4) and suggested that the English and French languages were among the determinant factors. As language is

used as a proxy for culture, Frank's findings suggested a significant influence of culture on accounting standards.

Table No (4) Frank's classification of countries by accounting practices

Group I	Group II	Group III	Group IV
Australia	Argentina	Belgium	Canada
Bahamas	Bolivia	Colombia	Germany
Ethiopia	Brazil	France	Japan
Eire	Chile	Italy	Mexico
Fiji	India	Spain	Netherlands
Jamaica	Pakistan	Sweden	Panama
Kenya	Paraguay	Switzerland	Philippines
New Zealand	Peru	Venezuela	United States
Rhodesia	Uruguay		
Singapore			
South Africa			
Trinidad and Tobago			
United Kingdom			

Source: Frank (1979, p. 596)

Nair and Frank (1980, p. 448), using 1973 and 1975 Price Waterhouse data, classified both accounting measurement principles and disclosure practices using factor analysis. They found that the grouping of countries and the classification schemes offered by Seidler (1967) and Frank (1979) may have only limited validity, because their findings were found to apply primarily to the measurement subset of practices, whereas the disclosure practices do not seem to confirm to any such conceptual classification scheme. However, the hypothesis suggests associations between cultural and economic variables and disclosures and measurement were not supported. It is again important to notice here that the language variable was used as a proxy for culture in Frank's study and it explained more than half the variation in the measurement practices across nations.

Another significant classification study was conducted by Alkafaji (1988, p. 637) in which he investigated empirically the effect of environmental factors on international

accounting practices. His findings support the important link between accounting practices and non-economic factors.

In general terms, most of these classification studies (deductive and inductive) have revealed the existence of a world-wide diversity of accounting systems and practices. The findings of these classification studies have identified the importance of environmental factors in studying any accounting system. They have also provided some help to international accounting researchers in obtaining a better understanding of why and how world-wide accounting practices differ. Each country has its own environment which has a direct bearing on the objectives of accounting and on the logical derivation of principles and rules (Hendriksen, 1982, p. 62). Alkafaji (1988) also stresses that accounting is a product of its environment. A better understanding of the environmental factors should offer better insight into the feasibility of the harmonisation process. Thus Sycip (1981, p. 85-86) emphasises that the development of International Accounting Standards is preconditioned by a clear understanding of the diverse and differing environments where such standards are intended to be applied and failure to consider environmental differences or circumstances will be likely to deter the acceptance of any established international standards.

According to the AAA (1977) and Nobes (1984) classification studies can be useful in many ways for both the accounting researcher and regulator. For example, classification has predictive power. An international body which seeks to impose its accounting system on some other country should be able to ascertain *a priori* the feasibility and/or desirability of such imposition. It would also make possible the prediction of the most probable path of development of a particular country's accounting system (AAA, 1977, p. 97). In the same vein, Nobes (1984, p. 28) argues that classification may be used as a way of describing and comparing different accounting systems. Classification may also help to shape development rather than merely to describe how things are. By studying a classification, a developing country might be better able to understand the available accounting systems and which would be most appropriate for its own purposes.

Libya has been excluded from all of the classification studies. The usefulness of these classification studies for any accounting research is therefore limited, unless the nature and determinants of the Libyan accounting system are investigated. However, these classification studies may help to predict the likely nature of accounting in Libya. Although there are some differences among the resultant clusters of the classifications, there is a consistent differentiation between an Anglo and continental, or micro- and macro-uniform grouping [e.g., Mueller (1967); Seidler (1967); AAA (1977); Nobes (1983, 84)].

According to Perera and Mathews (1990), the findings of classification studies led in turn to serious attempts at identifying both the relevant environmental factors and the mechanisms by which such factors influence accounting. Although many factors within the classification studies have been identified as important influences on accounting, such as economic, political, and legal systems, none of these studies has explicitly considered culture. It is only recently that culture has been considered as a significant environmental factor influencing accounting.

4.2.2- The Importance of Culture

The importance of the influence of culture on accounting systems as a separate factor was neglected not only in these classification studies but also in the more general accounting literature. Gray (1988, p. 4) states that "in the accounting literature, however, the importance of culture and its historical roots is only just beginning to be recognised. There has been a lack of attention to this dimension in the international classification literature". It is only in the early eighties that culture was considered as a significant environmental factor influencing accounting. Significant studies conducted in this area have acknowledged the importance of environmental factors, in particular culture, in shaping a country's accounting system (e.g. Mueller 1967; Violet 1983; Nobes 1983, 1984; Hofstede 1987; Schuerder, 1987; Bloom and Naciri 1989; Gray 1988; Perera 1989; Perera and Mathews 1990; Belkaoui and Picur, 1991).

The conclusion of these studies can be summarised as: (1) accounting is highly determined by culture (Violet, 1983), reinforced by Bloom and Naciri (1989) who claimed that approaches used to establish accounting standards are to a high extent the functions of the cultural factors inherent in each country; and (2) the lack of consensus among different countries as to what represents proper accounting methods, because their purpose is cultural not technical (Hofstede, 1985). At this stage it becomes fundamental to the research to clarify the definition of culture underpinning this work.

4.2.3- Definition and Meaning of Culture

Culture is not a concept readily defined, it has been defined and used in a number ways. This is because culture is an elusive, not a tangible object, it is invisible and operates at the level of the subconscious (Dent, 1991). As with any concept within the context of social science, consensus is hard to obtain on the definition of culture .

Perera (1989, p. 43) states in this regard that:

" the study of culture is characterised by a unique problem arising from the inexhaustible nature of its components. It is essential, therefore, that in analysing the impact of culture upon the behaviour of the members of any particular subculture, a researcher must select the culture components of dimensions most pertinent to the particular facet of cultural behaviour being studied."

Whilst many different definitions of culture have appeared in the literature, we will refer to some definitions which are consistent with the purpose of this study. The concept of culture is drawn from anthropological science which provides a framework for understanding the behaviour of individuals and social groups. Culture is mostly used to refer to the characteristics of certain groups or a society reflected by the aggregate of its individuals personalities. Guilford (1959) defined the individual's personality as the interactive aggregate of personal characteristics that influences the individual's response to the environment.

Hofstede informally defines culture by extending Guilford's definition to community as "the interactive aggregate of common characteristics that influence a human

group's response to its environment" (Hofstede, 1984, p.21), whereas Goodenough (1961) defines culture in more detail when he refers to it as consisting of:

"....standards for deciding what is,what can be,how one feels about doing it, People use their standards as guides for all the decisions, little as well as big, which they must make in the course of everyday life. As the members of a community go about their affairs, constantly making decisions in the light of their standards, patterns characterising the community as a whole are brought into being and maintained."

Rohner (1984) refers to culture as a system of meaning in the heads of multiple individuals. Hofstede (1984) argues in regard to the system of meaning existent in any human being, that each person carries a certain amount of mental programming, which is stable over time and invisible to observe, and we can only characterise the person's mental programming by observing his or her behaviour, such as words or deeds. According to Hofstede, mental programming can be found at three levels, namely the universal, collective and individual level. The first is shared by all people, the second "collective" level is shared by most members of one group but not with all people, whilst a different group will have shared a different mental programming. According to Hofstede, the ways in which collective mental programming manifests itself are through myths, rituals, habits, heroes and beliefs, and most of these characteristics are acquired by learning them from generation to generation. The third level (individual) is a truly unique part of each person.

Hofstede (1984, p. 21) derived his definition of culture from the collective level of mental programming of mind when he defined culture as "the collective programming of mind which distinguishes the member of one human group from another". Another definition of culture was provided by Violet (1983, p. 13) who describes it as "a product of mankind, invented to cope with the natural environment as well as social phenomena. Mankind has, in turn, become a product of that culture. Culture and mankind are in a constant state of evolution, creating and refining one another".

From these definitions one could argue that culture may be generated by any group of people who share a collective programming of mind which can be found and expressed at the national, organisational and occupational levels. This was cited by Hofstede (1987) when he extended the concept of culture to include subcultures such as an organisation's culture, and an occupation's culture. The former refers to an additional programming of mind shared by most members of an organisation. Occupation culture is characterised by a shared values system of those exercising a distinct occupation such as accountants or any professional group.

Culture has been recognised as a part of the environment which influences the whole business area, such as the management control system (see Birnberg and Snodgrass, 1988), organisational behaviour and theory (Boyacigiller and Adler, 1991) or existing patterns of economic wealth (see, Hofstede and Bond, 1988). It is only in the recent past that considerable attention has been paid to the influence of culture on accounting. It is important to note here that the relationship between organisational structure and management policy and culture will be discussed in light of their influence on accounting systems and practices in chapter nine.

In short, although the concept of culture has been defined in different ways, the mutual aspects between these definitions could be summarised as follows:

- A. Culture is the characteristic of a certain society or group of people, which makes their attitudes or behaviour to some extent predictable;
- B. Each society has its own culture which is shared by most of its members and differs from other societies;
- C. Within any culture we can find subcultures such as organisational culture or occupational culture;
- D. Cultural values are not easy to change and remain stable for a long time; and
- E. Culture plays a significant role in determining an individual's behaviour.

4.2.3.1-Cultural Dimensions

There are probably an infinite number of ways in which culture may differ. There is a need for the concept of culture to be 'unpackaged' (Rohner, 1984) to allow evaluation for research purposes (Leung and Bond, 1989). According to Pourjalai and Meek (1995, p.5), to allow for an analysis of cultural differences and how culture affects accounting, we need to ignore some of the more subtle differences and concentrate on the larger ones. Of course, this can open the possibility of criticism that some dimensions can be mis-specified. Hofstede (1980) carried out an empirical study which encompassed more than 117,000 questionnaires across 67 countries. He classified culture into four dimensions. These dimensions explained about 50 percent of the differences among the subjects of the countries surveyed.

National values were described as the content of the mental programming reflected in four dimensions, namely Individualism (ID); Power Distance (PD); Uncertainty Avoidance (UA); and Masculinity (MA). A significant theoretical framework suggesting the association between social values and accounting values which built upon these dimensions was developed by Gray (1988). Before examining Gray's development it is important to review in brief the underlying dimensions which are based on Hofstede's work:

1. Individualism versus Collectivism. Individualism refers to a preference for a loosely knit social framework in society, wherein individuals are supposed to care for themselves and their families. Collectivist societies, on the other hand, show a preference for being tight knit and caring about each other. Collectivist society gives the highest priority to collective interest and achievement. Hofstede found the degree of individualism in a country is statistically related to that country's wealth, which led him to conclude that wealthy countries tend to be more individualistically oriented, whereas poor countries tend to be more collectively oriented. Many different aspects are expected to be influenced by the prevailing orientation of this dimension within a society, one of which is accounting reports and disclosure practice. An individualist/collectivist dimension may have implications for accountants as they report and disclose information that reflects the good for the individual or the whole society.

2. **Power Distance.** This dimension refers to the way in which societies handle inequality. People in large Power Distance societies will accept a hierarchical order in which everybody has a place which needs no further justification. People in small Power Distance societies will strive to reduce power inequalities. The degree of inequality in a society is measured by the extent of Power Distance, and the level of Power Distance is related to the degree of centralisation of authority and degree of autocratic leadership. In this regard, Hofstede found a strong case relation between Power Distance and collectivism in a given country. Collectivist countries always show large Power Distance, and most poor countries are collectivist with large Power Distance.
3. **Strong versus weak Uncertainty Avoidance.** This dimension refers to the degree to which members of society feel uncomfortable with uncertainty and ambiguity. Hofstede found in societies with weak Uncertainty Avoidance, people maintain a more relaxed atmosphere in which practice counts more than principles and deviance is more easily tolerated. On the other hand in a society with a strong Uncertainty Avoidance, people try to control and manage the future to feel secure. In such societies, institutes and laws exist as a means to create security and to avoid risk. According to Perera (1989) religion is another way to create a feeling of security in some societies.
4. **Masculinity versus femininity.** This dimension refers to the way in which society allocates social roles to sexes rather than biological sex roles. Masculinity refers to the extent to which the dominating values (encouraged by the culture) are "masculine", which include heroism, material success, assertiveness, and a lack of interest in the welfare of other members, whereas femininity, refers to relationships, modesty, care for the welfare of all members and helping the weak. Hofstede found no identifiable pattern between countries in regard to this dimension.

Many studies have provided evidence which tends to validate Hofstede's dimensions. The dimensions have previously been used by many researchers in studying the relationship between culture and different business areas, such as:

(a) culture and organisation structure. For example, Sabri (1995) conducted research using Hofstede's dimensions on the impact of national culture on organisational structure and organisational culture. This was a comparative study on Britain, Japan, Sweden, Poland and Jordan, and the concluding findings support Hofstede's (1991) argument; (b) culture and economic growth rates (see, Hofstede and Bond, 1988); and (c) culture and management control system (for example, Birnberg and Snodgrass, 1988, who conducted research on 22 large companies in the US and Japan to examine the perception of management control systems by managers and workers in these companies; their main findings were that, in Japan as a collectivist society, social values are consistent with the company's goals, whereas in the US as an individualist society, employees considered actions from the perspective of how it affected them individually).

According to Sabri (1990), Hofstede's studies have provided management researchers with the tools for making inter-cultural comparisons, based on differences between cultures at national levels, and the consequences of differences on the ways in which organisations are structured and managers behave. Using Hofstede's dimensions in studying national cultural differences is also supported by Smith (1992) who argues that, despite the criticism to Hofstede's dimensions on a variety of grounds, they continue to provide the best available basis for thinking about cross-national differences in many aspects of organisational performance.

4.3- How culture can influence accounting

4.3.1- Culture and Accounting

One of the earliest writers who addressed the relationship between culture and accounting is Jaggi (1975). He made the logical connection between culture and a manager's orientation. Jaggi stresses that the value orientation of the manager (and by implication accountants as well), is itself a product of culture, and bears a direct

influence on financial disclosures. He continues his argument by claiming that culture orientation could fall within particularism or universalism, which are similar to Hofstede's dimension of individualism versus collectivism. Particularism is expressed by a favourable orientation toward institutionalised obligations of family, relatives and friendship, which is likely to be the case in most developing countries (including Libya), whereas universalism, is expressed in society through having complex technology which encourages individual independence and mobility, as is the case in America and most western countries.

Referring back to the definitions of culture, the aggregate behaviour of individuals forms the behaviour of the community and society and therefore their culture. Thus, if for example the individuals are Muslims, their identity and behaviour are expected to be influenced by the prevailing Islamic and cultural values. Any behaviour, including those activities associated with accounting practices, will be at least partly subjected to the individuals' cultural values. In principle, this may eventually bring into existence an accounting system which is coherent and relevant to their general beliefs and values.

Jaggi's argument also provides an explanation of some of the accounting problems. For instance, it has been noticed that information disclosed in financial statements in developing countries is less trusted and less acceptable than that of developed countries (Mahon, 1965, p. 34-35). According to Jaggi's argument, the explanation for this can be found on the basis that individuals in developed countries are universalistic while those in developing countries are particularistic. When the individual decides to choose either universalism or particularism, choice is determined by his/her cultural background or at least affected by that culture. If universalism is common in society, individuals are expected to be objective and neutral in their relation with other individuals. They are also expected to be loyal to their business and enterprises and honest in terms of their commitment to society, thus maintaining more honesty and neutrality in their attitude to the disclosure of accounting information. They therefore only disclose precise and adequate

information that enables the outside users to rely on this information in decision making.

This is contrary to those societies whose members' beliefs are dominated by 'particularism'. They may neither consider nor understand their duties toward users and society as their duties are basically directed toward their family and friends. They probably feel that they are not obliged to disclose information in financial statements since it will be presented to outside users (outside their family and friends) and those who are related to those families and friend can obtain this information directly from the managers and accountants (Eid, 1991).

Arpan and Radebaugh (1981) can be considered as some of the earliest researchers to investigate the influence of culture upon accounting. They suggested that conservatism, secrecy, distrust, and fatalism, as attitudes toward business and the accounting profession, are among the most important cultural influences on accounting practice.

Recently, a number of other studies have been conducted to assess the relationship between culture and accounting using Hofstede's dimensions. For instance, Karner et al (1989) in their study based on Hofstede's individualism dimension, tried to examine the effects of national culture on the perception of unethical business practices of public accountants in the US and Taiwan. The findings showed that Taiwanese accountants seemed more concerned with the effects upon their group (i.e. collectivist), which was in contrast to the US accountants who seemed more concerned with the legal ramifications of the unethical business practices (i.e. individualist).

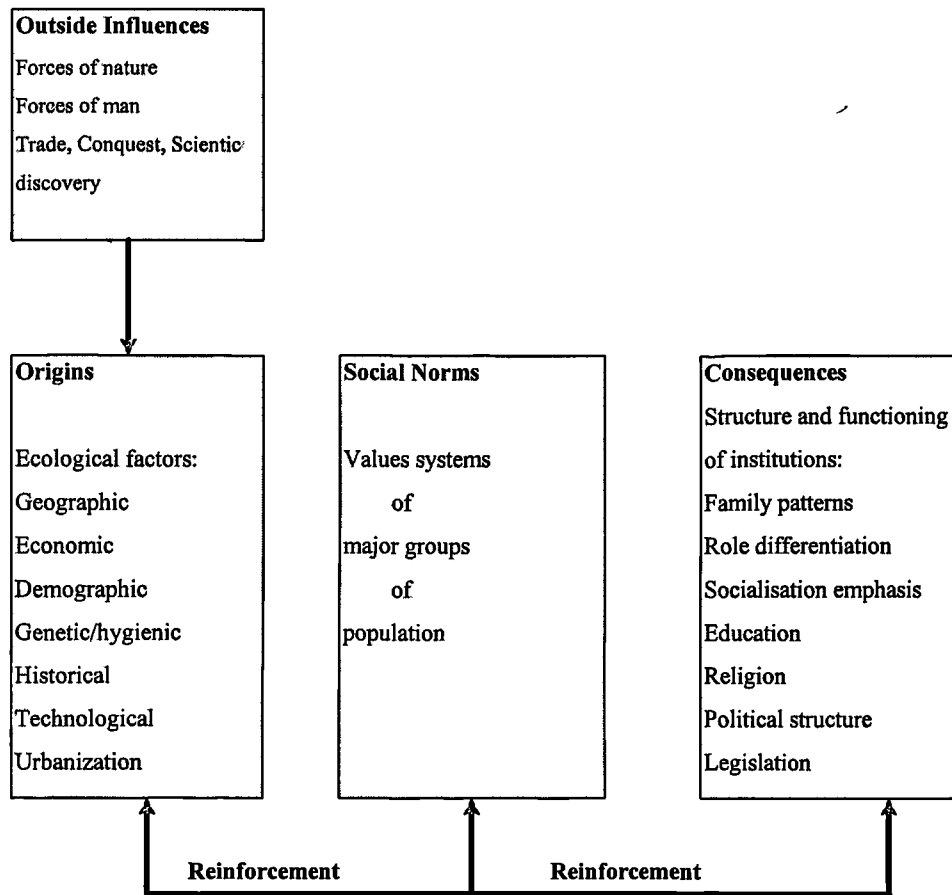
Belkaoui (1989) examined issues of self-regulation from a cultural perspective, through investigating the relationship between Hofstede's dimensions and the degree of professional self-regulation in accounting. According to his findings, uncertainty avoidance and individualism are negatively related to self-regulation, whereas masculinity was positively related to self-regulation.

Smith (1993) conducted a study to examine the relationship between cultural factors and accountants' attitudes toward international harmonisation of financial accounting guidelines. Using Hofstede's dimension, he found some support for the predictive link between cultural characteristics and attitudes toward harmonisation.

Ueno and Wu (1993), rely on Hofstede's dimensions in an attempt to determine whether national culture has an impact on budgetary control practices in the US and Japan. They revealed that the cultural dimension of individualism vs. collectivism can be used to explain why US companies tend to use communication and co-ordination more extensively than Japanese companies. The uncertainty avoidance dimension failed to explain different practices between the two countries in areas such as long-range versus short-range planning and the structuring of budgetary processes.

The above discussions suggest that the existence of a relationship between culture and accounting seems plausible. Many of the differences in the behaviour and attitudes of accountants, managers and users can find explanations in cultural differences, but the mechanisms by which such an effect might be transmitted are not immediately obvious. Hofstede's theoretical framework as presented in Figure (5) can be seen as an important attempt to provide a more rational basis by which the mechanisms of cultural influences can take place.

Figure (5) Hofstede's Framework



Source: Hofstede (1980)

According to Hofstede, societal values are different from one society to another because they are developed under the influence of ecological influences through geographic, economic, demographic, historical, technological, and urbanisation factors, which in turn are influenced by external factors, such as the forces of nature, trade, investment, and conquest. These in turn affect institutional arrangements, including presumably, information needs about those arrangements. According to Baydoun and Willett (1995), this appears to be the basic argument supporting the contention that each culture should develop its own accounting system to serve its own distinct requirements.

A cultural pattern in any society is unlikely to change and often remains stable for a long time particularly in a closed society (Kluckhohn et al 1988), because they are

strongly inherent in that society. Hofstede (1980) argues that if changes in those values take place, the main causes come from outside influences such as acts of nature (e.g. changing climate) and acts of man (e.g. conquest, colonisation, and/or scientific discovery). These do not impose direct effects upon the existing social norms, but rather through changing the behaviour of individuals, which in the long run will change the mental programmes of individuals. Hofstede's position is strengthened by Kunle (1970) when the latter discusses the problem of economic development in society stemming from changing people's behaviour rather than from changing their norms and(or) values.

"Culture Determination on Accounting" was the subject of three International Conferences. The first conference was held in Amsterdam, June 1985; the second in New York, August 1986; and the third in Brussels, December 1987. Perera (1989, p. 34) criticises the outcome of these conferences by saying that:

"The impact of culture upon accounting has yet to be established. Most of what has been written consists of *ex cathedra* propositions without adequate analysis or of non-generalisable case studies."

Perera (1988) asserts that any analysis of the impact of culture on accounting should be through:

- ♦ Identification of specific social values or cultural factors, which are likely to be directly associated with accounting practices; and
- ♦ Identification of the manner by which the association between societal values and accounting practices occurs.

4.3.1.1- Gray's Theoretical Framework

In response to the above argument, and in an attempt to explain the relationship between culture and accounting practices, Gray (1988) proposed a theoretical framework, which links culture with the development of accounting systems internationally.

Gray (1988) extended Hofstede's model by adding accounting values and accounting practice, as a subset of societal values and institutional consequences within a broader society. The model identifies the mechanism by which values at the societal level are linked to values at the accounting subculture, which directly influences accounting practices. From reviewing accounting literature and practice Gray derived the following four accounting values (accounting subculture):

- 1- Professionalism versus Statutory Control. A preference for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control;
- 2- Uniformity versus Flexibility. A preference for the enforcement of uniform accounting practices between companies and the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies;
- 3- Conservatism versus Optimism. A preference for a cautious approach to measurement, so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach; and
- 4- Secrecy versus Transparency. A preference for confidentiality and restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.

Linking these accounting values to Hofstede's social values, allowed Gray to suggest a number of hypotheses relating to the relationship between the social values and accounting values. These are as follows;

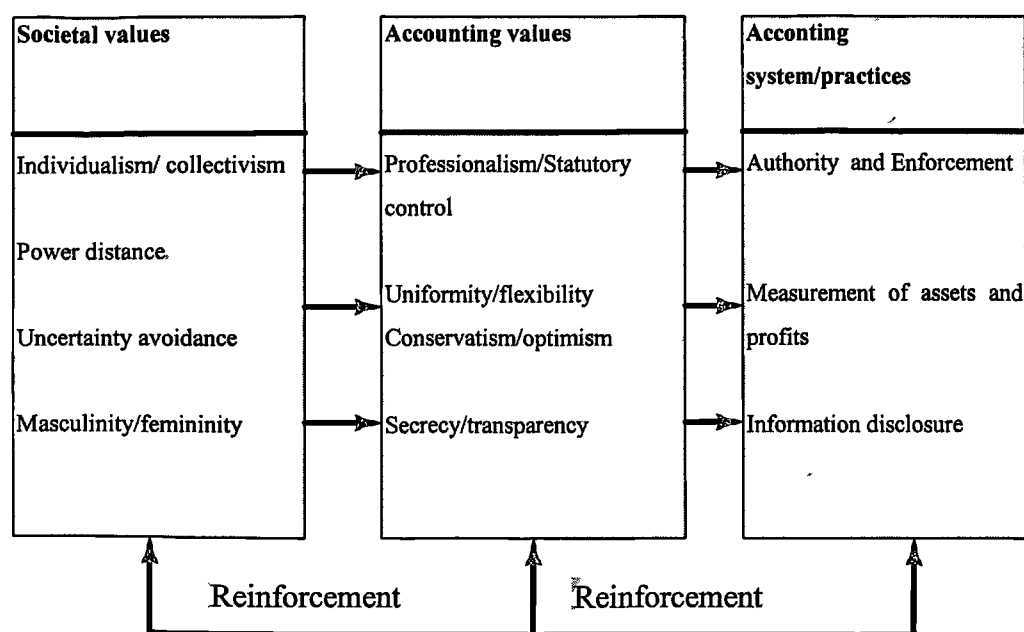
- 1- A country with a higher rank on individualism and a lower rank in UA and PD, is expected to express a high rank in terms of professionalism (lower uniformity);

- 2- A country with a higher rank in terms of UA and PD and a lower rank in terms of Individualism, is expected to demonstrate a high rank in terms of Uniformity (lower professionalism);
- 3- A country with a high rank in terms of UA and lower rank in terms of Individualism and Masculinity, is expected to demonstrate a high rank in terms of Conservatism; and
- 4- A country with a lower rank in terms of UA and PD and a lower rank in terms of Individualism and Masculinity, is expected to demonstrate a high rank in terms of Secrecy.

By applying these hypotheses, Gray contends the dimensions of Uncertainty Avoidance and Individualism are the most influential dimensions in relation to the accounting subculture dimensions, confirmed by Perera (1989) and Perera and Mathews (1990).

Gray continues his argument by proposing that the influence of accounting values on accounting practices impacts on four accounting practices, namely measurement, disclosure, authority, and enforcement. Measurement and disclosure are likely to be more relevant to the accounting dimensions of conservatism and secrecy whereas authority and enforcement are likely to be more relevant to the accounting dimensions of professionalism and uniformity. Figure (6) exhibits the relationship between societal values and accounting values and accounting practice based on Gray's Theoretical Framework.

Figure (6) Gray's Accounting Dimension and Measurement and Disclosure



Source: Gray (1988).

Perera (1989) argues that social values are affected by a set of environmental factors including economic ones. Based on Gray's framework, Perera explains the divergence in accounting practices amongst the Anglo-American and Continental European countries, by relating their divergence of accounting practices to their cultural environmental differences. According to Perera (1989), the USA, UK and most Anglo-American countries, witnessed liberalisation of economic policy with limited state intervention, thus encouraging people to invest their funds in all areas of the economy. Expected earnings become the main means to assess these investment opportunities, putting intense pressure on the companies to make full disclosures in their financial reports with a particular emphasis towards investors. Perera (1989) argues in this regard that disclosure in these countries (UK and US) has played a significant role in the development of accounting principles and practices.

Perera finds consistency between this explanation and Gray's theoretical framework as the UK and US rank high on the dimension of individualism, and low on



uncertainty avoidance, showing positive attitudes towards professionalism, with negative attitudes towards uniformity, secrecy and conservatism.

In contrast to this, the Continental European countries, in particular France and Germany, show different patterns of economic policy with a tradition of state intervention in economic affairs (Dowson and Steward, 1992). As discussed in chapter two, to obtain data for macro-accounting purposes the government in France determines the information that needs to be disclosed in the financial statements. The annual reports in France clearly reflect the concerns of a wide range of interest-groups, employees, administrative authorities and the community as a whole (Dawson and Steward 1992 p.49). The German capital structure is characterised by a high degree of debt capital and low shareholder base consisting mainly of banks, and the style of reporting is suited to the creditors base. Employees are seen as a significant interest group. In relation to Gray's framework we can find a reasonable explanation which is consistent with the above characteristics of the Continental European countries, particularly France and Germany, when these countries score high on uncertainty avoidance and low on individualism which have a negative effect on the degree of professionalism and positive effects on the degree of uniformity, conservatism and secrecy.

Glautier and Underdown (1994) argue that the ideas of accounting are rooted in the value system of the society in which they operate and are socially determined. This, according to Watts (1996, p. 21), partly explains why much of the accounting in continental Europe is so different from that found in the UK and USA. Watts's argument reinforces the importance of culture behind accounting differences between continental Europe and the UK and US.

Developing countries have different cultural, economic and political systems. Many are characterised by strong government intervention and a higher degree of centralisation of authority and strong social ties within the members of a given society. As a legacy of colonial rule, for some time most developing countries have adopted foreign accounting systems. This is without an articulated awareness of their

suitability to their own culture or environment. An examination of accounting practices and requirements in developing countries using Gray's framework might suggest different attitudes toward collectivism and strong uncertainty avoidance which may lead to positive attitudes on conservatism, uniformity and secrecy. From this it is argued that the notable differences in social values between developed countries particularly Anglo-American countries and developing countries, means that applying similar accounting practices and principles is unlikely to work in developing countries.

Perera (1989, p. 52) states that "the skills so transferred from Anglo-American countries may not work because they are culturally irrelevant or dysfunctional in the receiving countries context". He further argues that, for these reasons, governments in developing countries assume the role of formulating accounting principles and provide the legal authority to ensure the achievement of higher reliability of published financial information. In this regard, McKinnon (1985) stresses that enforced conformity without consideration of cultural aspects may result in an insufficient and inefficient system of information provision.

Gray's theoretical framework was supported first by Perera (1988) and Perera and Matthews (1990). The model made a considerable contribution to the processes of identifying the mechanism by which societal values are related to the accounting sub-culture and as such directly influence accounting practices. His contribution gives a more logical means of classifying accounting systems across countries. In regard to using Gray's model to investigate the relevance of developed countries to developing countries, Baydoun and Willett (1995, p. 72) state that:

"Due to the interference in what would otherwise have been the natural evolution of financial information requirements, there are no uncontaminated examples of modern accounting practices in developing countries. Consequently great care has to be taken in using data from developing countries to draw inferences about relevance on the basis of the Hofstede-Gray framework. Probably the best that can be achieved presently is to adopt the Hofstede-Gray framework as an implied definition of cultural relevance and apply it to specific cases to see if the results of such an enterprise are consistent with available evidence."

Thus, an investigation of the Libyan social values, accounting values and accounting practices with special emphasis on Gray's theoretical framework, could facilitate the classification of Libya on a more rational basis. Once classified, the country may benefit from those countries with similar experiences. The application of the framework also allows the investigation of the relationship of the adopted accounting system to its environmental context, particularly culture.

4.5- Summary

International classification studies of accounting according to different criteria was one of the means used by scholars to understand the differences in accounting between different countries. The chapter indicated that significant studies conducted in this area have acknowledged the importance of environmental factors, in particular the culture, in shaping a country's accounting system. (e.g. Mueller 1967; Violet 1983; Nobes 1983, 1984; Hofstede 1987; Schuerder, 1987; Bloom and Naciri 1989; Gray 1988; Perera 1989; Perera and Mathews 1990).

In most of these studies, environmental differences between countries have been highlighted as an explanation for accounting differences and preventing any country's accounting system from being successfully universalised. Culture, in particular, has been identified as one of the significant factors influencing accounting. The conclusion of these studies can be summarised into: (1) accounting is highly determined by culture (Violet, 1983) which was reinforced by Bloom and Naciri (1989) who claimed that approaches used to establish accounting standards are to a high extent the functions of the cultural factors inherent in each country; and (2) the lack of consensus among different countries as to what represents proper accounting methods is because their purpose is cultural not technical (Hofstede, 1985).

The way in which environmental factors have combined to produce a country's accounting system remained unresolved until recently. A step forward emerged with Gray's (1988) theoretical framework by which the mechanism of the relationship

between accounting and its environmental context, particularly culture, can be predicted. Gray's theoretical framework was supported and adopted by many scholars in studying the relationship between accounting and culture and in explaining the differences in accounting practices and standards among different nations (i.e., Perera, 1988 and Perera and Matthews, 1990).

The model made a considerable contribution to the processes of identifying the mechanism by which societal values are related to the accounting sub-culture and as such directly influence accounting practices. Gray's contribution gives a more logical means of classifying accounting systems across countries. However, Gray's model was particularly recommended when investigating the relevance of developed countries' accounting systems to developing countries (Baydoun and Willett, 1995).

The chapter concluded that using Gray's model could facilitate the classification of Libya on a more rational basis. Once classified, the country may benefit from those countries with similar experiences. The application of the framework also allows the investigation of the relationship of the adopted accounting system to its environmental context, particularly culture. Thus, the remaining part of this study was concentrated on Libya as a case study to test the predictability of international accounting literature discussed so far in this thesis.

Chapter Five- Research Methodology

5.1- Introduction

The literature of international accounting in the previous chapters (2, 3 and 4) helped to shape the theoretical framework for this research and contributes to the selection of its methodology. The study will concentrate on Libya as a case study. This is under the principal aim of gaining an initial understanding of the likely reason(s) for the seemingly low performance of Libya's accounting system (enterprise accounting in particular), and to suggest ways of improvement. To achieve this aim, the research has the following objectives:

- 1) To investigate the main factors which have contributed to the evolution and shaping of the accounting system in Libya, and determine to what extent the underlying accounting system has interacted with its environment.
- 2) To assess the relationship between the present accounting system in Libya and its environmental factors, particularly culture. This should provide a basis for comparing the hypothetical model of Libyan accounting derived from the accounting literature, particularly Gray's (1988) theory, with the current accounting system.
- 3) To investigate the extent to which Perera's (1989, p. 150) claim that "... given the circumstances prevailing in developing countries, a system of uniform accounting may be the only viable alternative", is true of Libya.

In this chapter emphasis is placed on the researcher's rationality for adopting the research method. This chapter also provides a description of the methods used for data collection.

5.2- The Research Questions and Focus

Research questions are critical in focusing research and its processes. Eisenhardt and Bourgeois (1988) use specific questions to define the scope and focus of the research

study. Thus, to achieve the main research objectives, seven research questions were formulated as the main focus for this research. They are as follows:

1. What are the origins of the current accounting in Libya? To what extent has colonial influence played a role in providing a source of accounting practice?
2. Has the accounting system been subjected through time to any substantial change or adaptations post-colonial times?
3. To what extent does accounting play a role in the socio-economic development process of the country?
4. What is the nature of the relationship between environmental factors, particularly those of culture, and accounting? In the light of this relationship how can culture influence accounting?
5. What are the characteristics of the Libyan culture? How are they different from the cultural characteristics of countries associated with the sources of accounting in Libya?
6. Can environmental differences, particularly those of culture, between Libya and those countries identified in 1 be one of the factors that impact upon the success of implementing an imported accounting approach in Libya?
7. What is the likely nature of the Libyan accounting system based on the international accounting literature and how does this compare with practice?
8. To what extent can a uniform accounting approach, with obvious emphasis on social accounting disclosure, be of relevance to the environmental factors in Libya?

5.3- Methodology of the Study

The research strategy is determined by the extent to which there exists knowledge about the subject, which may guide a more specific search for answers to the question (Yin, 1984). The literature review of the development of accounting shows that two main approaches have been used by scholars in accounting research: the inductive approach and the normative approach. Hendriksen (1982, p. 56) argues that:

"Current accounting policies have developed over the years in a framework that applies implicitly or explicitly the normative deductive or the inductive-deductive approach".

i) Descriptive approaches (inductive)

The accounting literature indicates that in the early stages of its development, accounting theory arose out of accounting practice (Scapens, 1992, p. 68). Accounting principles and theories have been deduced by individuals or groups through observing accounting as they see it being practised and then proceed to construct generalisations and principles of accounting from these observations on the basis of recurring relationships. According to Whittington (1986, p. 7) these researchers produced such *inductive theories*, based on rationalisations of the prevailing practices, for instance, Grady's "Inventory of Generally Accepted Accounting Principles for Business Enterprises," (Accounting Principles Board Statement NO. 4,)³. Thus, descriptive approaches are concerned with accounting as it is.

Using a descriptive approach in developing accounting theory has been criticised by many researchers. For example, Namer (1977, p. 18) criticised the descriptive approach on the grounds that: (1) Using the descriptive approach will lead to an accounting theory which will be nothing other than a theory to describe accounting as currently practised, when accounting theory should portray what accounting ought to be and a mechanism by which accounting practice can be evaluated and provide a guide to the development of new practices and procedures; (2) Deducing accounting theory and principles through studying the problems that arise from the real-world of accounting practice might lead to accounting theory and principles that cannot gain general acceptance from accountants, owners and others who have different interests in accounting, when the theory and principles might not be consistent with the

³ Grady, P, Accounting Research Study, No. 7, Inventory of Generally Accepted accounting Principles for Business Enterprises (New York: American Institute of Certified Public accountants, 1965); Shinner, R. M., Accounting Principles: A Canadian Study (Toronto: Canadian Institute of Chartered Accountants, 1973); Ijiri, Y., The Foundations of Accounting Measurement: A Mathematical, Economic, and Behavioral Inquiry (Englewood Cliffs, N.J: Prentice-Hall, 1967).

conditions of each project or the desires of management. This will lead to many disputes about the validity of these theories and principles; and (3) Using this approach might lead to different accounting theories and principles in different places, as a result of the differences between the conditions of accounting practice in each country.

The use of the descriptive approach for developing countries as a means of building their own accounting theory and framework is also criticised as being inappropriate by Samuels. He states that "the early approach (descriptive approach) was based on a rationalisation of current practice. Clearly, this does not offer much hope to developing countries as their current practice is often inadequate, and in any case is usually based on an imported system" (Samuels, 1990, p. 72).

Nevertheless, the importance of the descriptive approach cannot be overlooked. It plays a significant role in much accounting research. This is because descriptive research involves collecting data in order to test a hypothesis or answer questions concerning the current status of the subject of the study and to determine and report the way things are (Gay, 1976, p.10). Thus, it is considered acceptable when background information on context and environment represents an important part of the database.

Some questions in this study are about the status of enterprise accounting as well as its environment factors in Libya. Using the descriptive approach is therefore essential and further could be useful in the process of analysing and organising the material collected from the literature review and field work.

ii) Normative approaches

Normative approaches are seen by many scholars as important in overcoming some of the shortcomings of the descriptive approaches. It is concerned with the *structure* of accounting as it ought to be (e.g. the studies by Moonitz, Sprouse and Moonitz, The American Accounting Association's 'A Statement of Basic Accounting Theory',

'The Theory' of Edwards and Bell, and the Chambers study)⁴. The use of the normative approach by accounting researchers is justified on the grounds that changes are inevitable in the users' needs and the surrounding environment. For instance, McDonald (1972, p.67) argues that:

"Users change; the uses they make of information change; the economic and business environment changes. Thus by the very nature of things the accounting discipline is a dynamically changing one. It is natural then that considerable concern should be directed to what accounting ought to be as distinct from what it is now."

An objective of this research may impact upon the process of developing or building an accounting framework in Libya. In the light of continuous environmental changes, and in the absence of a complete accounting system, using the normative approach is apparently needed in order to inform one of the objectives of this research.

A social approach, can be seen an alternative approach to accounting research. It is one of the approaches that has been used recently by researchers in formulating accounting theory from first principles which may then have implications for accounting practice. Since accounting is perceived as a social construction interacting with its surrounding environment, social accounting encourages business entities to account for the impact of their private production activities on the social environment through measurement, internalisation, and disclosure in their financial statements. According to Belkaoui (1992) over the years, interest in this sub-discipline has increased as a result of the social responsibility trend espoused by organisations, the government, and the public. According to Francis (1973, p. 245) the increasing interest in social accounting seems to be based on a belief that we must begin to think in terms of providing people who make policy with more complete and meaningful indicators or statistics so that their actions will be more effective or efficient.

⁴ Moonitz, M., *The Basic Postulates of Accounting* (New York: American Institute of Certified Public Accountants, 1961); Sprouse, R.T., and Moonitz, M., *Accounting Research Study No. 3, A Tentative Set of Broad Basic Accounting Principles for Business Enterprises* (New York: American Institute of Certified Public Accountants, 1962); *A Statement of Basic Accounting Theory* (Evanston, Ill.: American Accounting Association, 1966); Edwards, E. O., and Bell, P. W., *The Theory and Measurement of Business Income* (Berkeley: University of California Press, 1961); Chambers, R. J., *Accounting, Evaluation, and Economic Behavior*.

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This approach has been criticised on the basis that it is difficult to measure social welfare. Samuels (1990) however, argues that “the point is not about new things to be measured. Rather that there is already information about social accounting available within business enterprises which is not being disclosed and this information is relevant to the debates on development problems particularly those in developing countries and therefore this information should be disclosed”. The social accounting approach is seen as being evolutionary rather than revolutionary. The literature review in the previous chapters also suggests that a better understanding of the environment within which accounting is practised will determine the structure of the resulting accounting system. Thus, this study perceives *accounting as a social construction* and it is therefore inappropriate to conduct the study in the absence of a consideration of the social issues.

It seems that each of the above approaches has its own limitations, and a combination of approaches seems to be appropriate to certain kinds of research. Many researchers have referred to the implementation of a mixture of these approaches. For example, Gambling (1972) regarded that accommodation between descriptive and normative approaches is the best way of developing accounting theories and principles. Thus, this study has adopted a combination of the three research approaches as complementary to each other. It is the nature of the research questions which determines the extent to which each approach will be dominant at various stages of data collection.

5.4- Fieldwork and Data Collection

According to Scapens (1990, p. 264), fieldwork is usually taken to mean studies of social practices, such as accounting practices, in the field of activity in which they take place. This could be a study of a single company or a country (ibid). Adopting a research strategy depends on the nature of the research question, and the ability of that approach to address the pertinent questions more appropriately than alternatives (Denzin, 1978). Scapens (1992) has suggested that if the nature of the research is exploratory, the formal testing of specific hypotheses can be impractical. Given the

nature of the research questions which require different sets of data, both quantitative and qualitative about accounting and its environmental context in Libya, the researcher has adopted a case study approach. Yin (1981) defines the case study approach as “an empirical enquiry that investigates a contemporary situation within its real-life context when boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used”.

The strength of the case study approach can also be derived from its ability to deal with a variety of issues. For example, Scapens (1990) suggested five forms of case studies; Descriptive, Illustrative, Experimental, Exploratory, and Explanatory. In order to deal with the multiplicity of the research questions this study used more than one form of case study, including descriptive, exploratory, and explanatory.

A descriptive form is needed when background information on context and environment represents an important part of the database in this study. Also, because the research partly seeks to explore the main factors that have contributed in the formation of the present accounting system in Libya, some element of “exploratory case study” is used. According to Scapens, the “exploratory case study” is a first step in such a project. The “explanatory case study” approach is appropriate for ‘how’ and ‘why’ questions (Yin, 1984, p.17), thus the “explanatory form of case study” is primarily used in analysing some of the research questions such as why accounting in Libya seems to have a limited contribution to the country’s socio-economic development processes.

Of course, like any other method, the case study approach has been criticised on the grounds that its findings cannot be generalised. The unique circumstances of the environmental factors in Libya, means there is considerable difficulty making any generalisation about the descriptive or predictive nature of accounting systems and regulatory processes from this study. It is not the primary aim of this study to generalise its finding on the international level but rather to provide a better understanding of accounting in its environmental context. However, according to Wallace (1990, p. 10), only a detailed survey of specific country studies can provide an in-depth understanding of the accounting situation, which can be perceived as a

significant step for the process of international harmonisation. Sycip (1981, p. 85-86) asserts that the development of International Accounting Standards is preconditioned by a clear understanding of the diverse and differing environments where such standards are intended to be applied and that failure to consider environmental differences or circumstances will be likely to deter the acceptance of any established international standards.

5.4.1- Data Collection Instruments

Different methods such as documentary sources, observations, questionnaires and personal interviews can be adopted for conducting fieldwork. Each of these methods has its own limitations, and a combination of methods can counteract these limitations. Bulmer and Warwick (1993) point out that using various data collection methods (both qualitative and quantitative) is important, especially in third world countries. One reason for this is that it can be very hard to locate and find research data in a specific field. A second reason is that in third world countries, due to culture orientation, people are not used to expressing their opinions frankly; they have a tendency to say what the other person wants to hear (ibid). Therefore in this study a mixture of data collection methods were used to improve the face validity of the data. These include a questionnaire and personal interviews. In addition, studying the development of accounting in a country requires an historical perspective but this is of necessity from a restricted set of materials.

5.4.1.1- Historical research

Historical research has been defined by Cohen and Manion (1989, p. 48) as “the systematic and objective location, evaluation and synthesis of evidence in order to establish facts and draw conclusions about past events”.

The researcher used historical research to review the literature of a number of developed and developing countries so as to give an historical background to the evaluation and status of accounting in those countries. One of the key research objectives was to examine the evolution of accounting in Libya and therefore key

historical literature, laws, rules and government publications were looked at. The literature also casts light on the other two research objectives. In some cases the lack of research into accounting in Libya necessitated an examination of some companies' reports and interviews with academics, senior professionals and civil servants to fill in some of the gaps in the literature.

5.4.1.2- Questionnaires

By definition, a questionnaire is a list of questions through which information is acquired from a selected group (Evans, 1978, p. 56). In this research the questionnaire was an important instrument through which volumes of data were accumulated. This is because a large number of questions can be put to a large number of people which would otherwise be impossible with other methods of research such as interviewing and participative observation. Secondly, questionnaires give the respondents enough time to answer the questions. In addition, Selltiz et al (1965) argue that the questionnaire is useful for a researcher who seeks information about what he knows, believes and expects. It is recognised that questionnaires are subject to response bias.

In this study, in order to give a complete coverage of the research objectives, three questionnaires were designed to collect data. The first one was for accountants working within accounting departments in Libyan companies. The second questionnaire was devoted to managers of the same companies, and the third questionnaire was to be completed by accountants who work as professional accountants in Libya. These three groups were chosen as they are thought to be the most influential parties on the accounting system in Libya. They represent three key sources of information on accounting practice and its future development in Libya.

To ease and save respondents' time in completing the questionnaires, as well as achieving a uniformity among respondents' answers, closed or fixed-alternative forms of questions were adopted in this study. According to Oppenheim (1966) closed form questions require no writing. Quantification is straightforward and they

are easier and quicker to answer, so more questions can be asked within a limited time. In most cases questions were formed on a five points Likert scale. This is because using the Likert scale allowed answers that are not achievable using a yes/no question format.

Special care was taken in wording the questionnaires. They were originally written in English and then translated into Arabic by an expert. The researcher's involvement within the accounting profession both as a practitioner and teacher of accounting, gave the researcher invaluable insight and first hand knowledge of accounting policies and practice in Libya. It also provided the researcher with contacts within the profession who were participants in this study. Although mailed questionnaires were employed in the three groups, special efforts were made to achieve a high rate of response. This included: (1) making the questionnaires simple, understandable and short; (2) having a covering letter accompanying the questionnaires explaining the importance of the study and ensuring the participants that all the responses of the questions would be confidential and anonymous; and (3) the dissemination of questionnaires involving personal contacts with respondents through established social networks. Consequently, the rate of response was high in all the groups, and helped to increase the reliability of information obtained.

Population and Sample

After defining the population intended for the study, a number of subjects were selected which can be seen as representative of that population. Although there are different types of sampling techniques, it is important to select the right sample. Borg and Gall (1983, p. 240) explained that "sampling means selecting a number of subjects from a defined population as representative of that population". Regarding sample size, Gay (1973) suggested 10 percent of the total population is satisfactory for representativeness, whereas, Cohen and Manion (1980, p.101) stated that no exact number or percentage can be universally prescribed to be adopted in all studies. Nevertheless, they suggested that a sample size of 30 has been held by many to be the minimum number of cases if the researcher plans to use some form of statistical analysis with his/her data. The sample size of this research is justified below.

A)The companies sample;

In selecting the enterprises sample, special care was made to secure a representative sample of all enterprises. It is important to note that the researcher could not find exact figures about the number of Libyan companies as a whole. A recent list of existing enterprises was obtained from the Libyan Institute of Public Control (IPC), but following attempts to contact companies it was found to be inaccurate. Many enterprises were included in the list which did not exist in reality, whilst some enterprises were not listed at all. The researcher had to work with some employees of the IPC to estimate a reasonably reliable figure. The final figure arrived at was approximately 350 enterprises excluding oil enterprises in Libya. 60 enterprises were selected in total, representing more than 17 per cent of the population. The chosen companies were those which employed 100 people or more; size can be regarded as fairly large in the context of Libya. Large companies were selected because it was hoped that the quantity of published information increased with the size of that organisation and as a consequence the accounting issues would be more transparent.

Accountants and managers of the selected enterprises were the target of the first and second questionnaires. The information demanded by both questionnaires required that respondents should have reasonable experience in their work. Therefore, heads of accounting departments or the financial managers were chosen to fill in the first questionnaire and senior managers for the second questionnaire. 50 enterprises replied providing a significantly high response rate of 83 per cent.

b)The professional accountants sample;

Public accountants in Libya who are considered as 'professional' accountants, are the third target population of this study. The total number of public accountants was also difficult to obtain from the chairmen and staff of the LAAA. The researcher had to rely on informal mechanisms to make the nearest estimation. The final figure arrived at was Approximately 300 public accountants distributed all over the country, but clustered mainly in Tripoli and Benghazi. 55 Libyan public accountants (approximately 14 per cent of the total population) were selected randomly (from the public accountants located in the north western region of Libya where Tripoli is

located⁵). Questionnaires were then sent to those accountants including the present and past chairmen of the LAAA. To save time and reduce any ambiguity in the questionnaires, the majority of the questionnaires were delivered by hand, and in a number of cases were completed in the presence of the researcher. As a result, forty useable questionnaires were returned providing a remarkable response rate of 72 percent.

c) The content of the questionnaires

The research objectives underpinned the design of the questionnaires. The material contained in the questions was drawn from themes within the accounting literature, similar research and the unique focus of this study. However, the researcher's own background within the accounting profession and accounting education, gave the researcher invaluable insight and first hand knowledge of accounting policies and practice in Libya. It made it possible for the researcher to ask relevant questions as an insider to the profession.

i) The questionnaire on companies' accountants was composed of three sections (see Appendix 5). Section One concentrated on information related to educational background, experience and place of study of each respondent. The purpose of this section was to provide a general background on the subjects who participated in this study.

Section Two contained questions designed to obtain information relating to the accounting systems and practices currently employed by companies in Libya, such as accounting principles, reports, accounting methods and accounting disclosure.

Section Three contained questions designed to obtaining information about the accountants' views and opinions on a set of related accounting matters. This included their views about the main factors influencing their companies' accounting practices, the accounting profession and existing regulations.

⁵ See limitation of the study

ii) The questionnaire to managers was divided into two sections (see Appendix 6). The first section was again designed to obtain general background about the respondents' job, qualifications, experience and their company's size, and years in business.

Section two contained questions designed to obtain information on items such as; purposes that lie behind the preparation of their current accounting reports; the timeliness of the publication of their companies' financial reports; who they perceive as users implying the right to receive company accounting reports; and who the actual users are who receive their companies' accounting reports.

iii) The questionnaire to public accountants was in two sections (see Appendix 4). The first section was again aimed at discovering background information on the respondent.

Section Two of the questionnaire was aimed at exploring information relating to the accounting profession and regulations such as: the conditions met to obtain their licences; the main services provided by public accountants; the existence of agreed accounting and auditing standards in Libya; auditors' main concerns in auditing a company's accounting reports; the role of the accounting profession in developing and regulating the profession in Libya; and their views regarding the feasibility of applying the uniform accounting system.

Since most of the questions in all the questionnaires sought to obtain data concerning accounting practices and participants' views, the usual descriptive statistics, namely means and frequency distribution, were considered appropriate and were employed.

5.4.1.3- Interviews

There are three types of interviews that can be used as research tools. Interviews can be structured, semi-structured or unstructured, recorded or unrecorded, and conducted with subjects individually or in small groups. In this study, semi-

structured interviews were conducted with those who are responsible for public sector companies and have the right to receive these companies' accounting reports (e.g., Libyan officials, planners and economists at Secretariat of Treasury (Finance) (accounts department) and Secretariat of Economics and Planning (planning section), executive manager in the Secretariat of Industrial (companies department), executive manager at the Central Statistic Office). This was in addition to interviews with officials in the Libyan Institute of Public Control (IPC) and Libyan Accounting Auditing Association (LAAA). Semi-structured interviews are adopted because they allow space for discussion and encourage participants to raise and elaborate on important related issues. Moreover, a semi-structured approach appears friendlier and less intimidating, Cohen and Manion (1980). There was no formal questionnaire, instead, a series of topics were introduced from a checklist, and were discussed in any order that seemed natural during the interview.

Another advantage gained from using unstructured interviews was that users of accounting reports vary and differ in many aspects (e.g. accounting background, level of education, interest in accounting reports etc.), and using formal structured interview will necessarily generate the difficulty of a lack of shared knowledge towards the same set of questions.

In general, the interviews aim to (a) discuss the present accounting system in Libya, its origins and its relevance to the Libyan environment; (b) take a gauge of the interviewees' views regarding the present accounting regulation and the feasibility of applying the uniform accounting system; and (c) to obtain information that is difficult to get through the means of questionnaires. In order to ensure confidentiality, interviewees were given guarantees that details such as their company's name and their name would be excluded from the reports.

5.4.2- The pilot study

The main concern was to produce a short and simple questionnaire. Draft questionnaires were prepared and tested in small-scale pilot studies, so that maximum accuracy could be ensured.

Before commencing the field work, meetings were held with experts in questionnaire design from the Business School of Durham University, and on their advice, some modifications were made concerning the design of the questionnaires. The first draft of the questionnaires was designed and piloted on five subjects outside the selected sample. After piloting the questionnaires, some questions were identified as ambiguous and were rephrased and redesigned, or, in exceptional cases, were dropped. As noted earlier, the researcher's involvement within the accounting profession both as a practitioner and teacher of accounting, gave the researcher invaluable insight and first hand knowledge of accounting policies and practice in Libya. It also provided the researcher with contacts within the profession who were participants in this study.

5.5- Summary

In this chapter emphasis was placed on the researcher's rationale for adopting the research method. This chapter also provides a description of the methods used for data collection. The literature review of the development of accounting shows that two main approaches have been used implicitly or explicitly by scholars in accounting research in the development of accounting: the inductive approach and the normative approach. This is also in addition to social approaches. It seems that each of the above approaches has its own limitations, and a combination of approaches seems to be appropriate to certain kinds of research.

The case study approach has been defined as "an empirical enquiry that investigates a contemporary situation within its real-life context when boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used" Yin (1981). It is also recommended when using both quantitative and qualitative data. Given the nature of the research questions which require different sets of data, both quantitative and qualitative about accounting and its environmental context in Libya, the researcher has adopted a case study approach. The strength of the case study approach can also be derived from its ability to deal with a variety of issues. For example, Scapens (1990) suggested five forms of case

studies; Descriptive, Illustrative, Experimental, Exploratory, and Explanatory. In order to deal with the multiplicity of the research questions this study used more than one form of case study, including descriptive, exploratory, and explanatory, as complementary to each other. It is the nature of the research questions which determines the extent to which each approach will be dominant at various stages of data collection. .

Data about the Libyan environment, including the history of the country, Libya's past and present political and economic systems, and its stage of development were required. This is in addition to information regarding past and current laws and regulations, accounting education and the accounting profession in Libya. Further information was required concerning: accounting development and regulation in general and in developed countries in particular, the role of accounting in economic development in developing countries, and the relationship between accounting and its environmental context, particularly culture. To collect the required information the study involves a mixture of data collection methods . These include a reviewing the relevant literature, questionnaire and personal interviews.

An historical review to the literature of a number of developed and developing countries was made to give an historical background to the evaluation and status of accounting in those countries. One of the key research objectives was to examine the evolution of accounting in Libya and therefore key historical literature, laws, rules and government publications were looked at.

In this research the questionnaire was an important instrument through which volumes of data were accumulated. In order to give a complete coverage of the research objectives, three questionnaires were designed to collect data. The first one was for accountants working within accounting departments in Libyan companies. The second questionnaire was devoted to managers of the same companies, and the third questionnaire was to be completed by accountants who work as professional accountants in Libya. These three groups were chosen as they are thought to be the most influential parties dealing with the accounting system in Libya. They represent

three key sources of information on accounting practice and its future development in Libya.

Other data were collected through interviews with government officials, economists, planners, officials in the Institute of Public Control (IPC), and the Libyan Accounting and Auditing Association (LAAA). To find out more about accounting practices in Libya, financial statements of a sample of these companies were looked at.

Chapter Six- The Development of Accounting in Libya

6.1-Introduction

- “Knowing the origins of accounting in a country will facilitate a set of potential improvements and changes in its system” Nobes and Parker (1981, p. 225).

This chapter looks at the history of accounting in Libya. The reader will see that the influence of Italy lasted for a longer period than that of Britain. However, the impact of their influence on commerce is quite different and has had less impact on accounting practice.

The review of accounting literature in chapter four, identified that Libyan accounting systems have not been included in any of the international surveys, classifications or reviews (see, for example, Price Waterhouse, 1979; Nair and Frank, 1980; Goodrich, 1982; Nobes and Parker, 1985). This is reinforced by a similar lack of research within the country about the origins and factors that have contributed to the formation of the present accounting system in Libya.

The survey of accounting literature so far implies that “there is a need to uncover the origins and basic structure of the accounting system in each country, so that accounting can be shown in its dependence on, or shaping of, the underlying linguistic, political, social, and economic conditions” (Wallace and Gernon, 1991, p.215). Also, an understanding of the origins and structure of the accounting system in a country is a first step for any attempts to develop and evaluate the performance of the accounting system in that country.

Therefore, this chapter aims to investigate the main factors that have contributed to the development and formation of the accounting system in Libya, particularly enterprise accounting, and its current status.

6.2- The evaluation of accounting in Libya

Several factors seem to have affected the way in which accounting systems and practices in developing countries have evolved. These factors can be classified into two major categories (1) external factors, such as the effect of colonisation, aid agencies and multinational corporations; and (2) internal factors, such as laws and taxation systems, accounting education and profession as well as economic, political and cultural settings. Libya, like many other developing countries, has gone through different patterns which relate to these factors. The influence of these factors on the development of accounting in Libya will be discussed historically and empirically during the periods before and after the country's independence.

6.2.1- The Development of Accounting before the Independence of Libya

As indicated in chapter three, Libya was subjected to different colonisers (i.e. the Turkish, Italian, and the British) each of whom have contributed to the formation and the shaping of all the current systems implemented in Libya, including the accounting system.

6.2.1.1- Accounting during the Turkish era

There is very little written material about the status of accounting in Libya during the Turkish period. However, an historical review of the economic and political conditions may give some indication of the status of accounting during that period.

As mentioned earlier, Libya was part of the Ottoman Empire for more than four centuries starting from 1551 to 1911. During this time, the country went through three periods of Turkish rule i.e. the First Ottoman Rule of Libya (1551-1711); the Qaramanali Epoch (1711-1835); and the Second Ottoman Rule (1835 -1911).

Generally speaking, although Libya remained under Turkish rule throughout these periods, Ottoman control over the whole of the country was often far from complete

(see The International Bank for Reconstruction and Development, 1960; Salem Hajjaji, 1967, and Rachel Simon 1987). During the first Ottoman Rule, tribes were almost entirely free to run their own affairs as long as they were not involved in active political opposition and as long as tax was paid. Joffe (1989, p.9) reported that “in effect, power was left in rural areas in local hands and, ‘the Ottomans usually only interfered with the life of the tribes to settle conflict and ensure the payment of taxes”. Ottoman law applied solely in towns and this occurred only after 1867. Elsewhere Islamic law and traditional tribal customs were applied (Ibid).

However, in the second period ‘Qaramanale Epoch’, the Qaramanali dynasty held power to rule Tripoli with two governors appointed to the provinces of Fezzan and Cyrenaica and with military garrisons and a *Qaim-Maqam* (military local governor) in every town. On the lower levels there were *Mudirs* (civilian local governor) and tribal *Shaikhs* (heads of tribes) for the town and hinterland. According to El Horeir (1981, p. 23), the Qaramanalis also followed the practice of leaving the tribes to their traditional ways of life.

The third period was the second Ottoman Rule which started when the Turks reclaimed power from Qaramanli’s dynasty and a new governor was appointed, who was directly responsible to Istanbul. Although the new governor’s administration was successful in establishing a more peaceful relation with the tribes, it was not strong enough to extend control to Cyrenaica. The Turks left it under the Sanussi order which applied Islamic law and traditional tribal customs (El Horeir, 1981).

Four kinds of taxation system were witnessed during the Ottoman and the Qaramanalis periods (El Horeir, 1981, p. 60). Under the first tax system during the Ottoman Empire, local rulers in towns were allowed to send tax collectors with the *Muddier* or *Qaim-Maqam* of a given area to taxpayers who were required to pay them a sum based on the officials judgement as to the worth of their products. The head of the tribe would prepare a sumptuous feast in the hope of affecting the visiting tax committee’s decision in favour of his tribe (Ibid.).

The second tax system was applied using competition among *multazims* (selected through a public tender), when the Ottoman *Pasha* (governor) would announce the minimum tax required from each area. *Multazims* would respond by making competitive bids to the central authority on how much they thought they could extract from the given area. The highest bidders would then receive the assignment from the *Pasha*.

The third tax system was run directly by the *Shaiks* on behalf of the *Pasha* when the sum of the tax to be collected was fixed by the *Qaim-maqam*, and the *Shaikhs* divided it between their tribes. The amount of tax to be collected was not based on a fixed rate of the payer's wealth or production but rather on the ruler's deficit and desires. For example, it was reported by El Horeir (1981, p. 63) that the *Qaim-maqam* asked twenty tribal *Shaiks* to collect an annual payment of 12,750 sheep as a tax which the *Shaiks* divided between their tribes in kind or in cash to the equivalent value.

The fourth tax system was applied as a result of a government deficit and to allow the payment of foreign debts to foreign traders and investors. The *Pasha* found the only way of paying the government's debts was through emergency funding programmes which were implemented by special envoys in collaboration with local governors.

Clearly, during the Turkish rule there was no organised or fixed taxation system: most of the tax systems (methods and basis) were imposed according to the personal judgement of the *Pasha* or *Shaiks*. Since these tax laws incorporated no specific provisions concerning accounting practices, it could be said that modern systems such as an accounting system were not used for tax purposes.

Wright (1982) describes the Turkish occupation of Libya as a religious administration as much as a colonial one. The Turks were mainly interested in maximising the amount of collected tax, with little consideration to improve the country's condition. Local people were left uneducated and were isolated in rural areas to live a traditional life with traditional economic activities, such as agriculture,

extensive dairy farming, livestock, traditional caravan trade and small traditional industrial products (Ghanem, 1982, p.143-44). According to Farley (1971) the Turks ruled on the coast, and the Sanussi ruled beyond. Thus the country's affairs during the Turkish administration were run in a traditional manner.

There were no sign of infrastructure built during the Ottoman period; according to Sergre (1982, p. 82) the country had "no roads, no ports, no rail roads, no building, nothing, nothing, nothing.". This resulted in an era of stagnation and there was a delay in the country's development during the Ottoman administration. Ghanem (1982) describes the Libyan economy during the Ottoman administration as that of rock-bottom equilibrium. The country was basically dependent on its meagre resources, the standard of living was very low and the economy was directly dependent on rainfalls, which were unpredictable.

The industrial sector mainly consisted of traditional industries, exemplified by small textile manufacture, pottery for exchange in local markets which were owned and run directly by the owner and his family. Outside the main cities the economy was non-monetary, markets were very limited and were based on barter (Ghanem, 1982, p. 142).

Although there is not strong evidence indicating whether modern accounting was implemented or not during the Turkish period, the above discussion as well as the type and size of economic activities, market system, the level of education and technology and tax systems, suggest that there was no such thing as enterprise accounting or other modern accounting practices in Libya during the time of Turkish rule and accounting was confined to simple book-keeping (single entry) in order to compute tax or Zakat.

6.2.1.2- Accounting during the Italian Era

In an answer to the question as to what the Italians made of Libya, Segre (1982, p. 82) reported that "from the beginning the outline was clear. The details of the

programs and the specific techniques varied over the years. The goal, however, remained the same: to create a Fourth Shore, a Mediterranean shore. Like French Algeria, Libya was to become not merely a colony but an extension of the mother country”.

However, to realise their goal of colonisation, hundreds of thousands of Italians were brought to Libya to settle (The International Bank for Reconstruction and Development, 1960, p. 27). To make life possible and facilitate the living conditions of the new settlers, the Italian coloniser was forced to spend huge amounts of money, more than 10.175 billion Italian Lira, which was equivalent to 880 million American dollars on the development of infrastructure, which had previously been either negligible or non-existent and which proved vital before any substantial Italian settlement project could take place (Ghanem, 1982, p. 144).

Agriculture and farming were the main sectors chosen to absorb the Italian settlers. The development of agriculture led to the development of some activities and industries based on agricultural products, such as the tobacco factory established in 1923, wine making; food processing plants; a number of textile factories; and showplace factories (Ghanem, 1982, p. 146). This marked the establishment of the first modern enterprises in Libya Barker (1982, p. 56) states that “the Italians were the first to introduce modern industry into Libya during the period of control 1911-1943”. According to El-Mehdawi (1981, p. 109) in 1938 about 789 manufacturing establishments were operating in the country and most of them were controlled by Italians. Gurney (1996, p.20) also reported that most of these enterprises were owned and run by Italians.

The Italians considered Libya politically and economically part of Italy (Ghanem, 1982) Italian systems e.g. economic, legal and management were implemented in Libya and were presumed to be the same as those in Italy. The accounting system was not an exception. Two main factors played a significant role in forming and shaping accounting in Libya during the Italian occupation: the Italian accounting profession and the Italian tax laws.

Italian accounting profession. As a consequence of the Italian view of Libya as an extension of their mother land, one can say that the Italian accounting profession was brought to Libya mainly through Italian accountants who were also brought to work in Italian enterprises and in Italian government departments, thereby implementing a copy of the Italian accounting profession in Libya. There is no evidence indicating the establishment of specific accounting systems for Libya.

Italian settlers stayed in Libya until 1970, and it is reported that Italian accountants continued to practise accounting along the lines of their home accounting profession (Nyhoom, 1976, p.77). The main branch of accounting applied by the Italians in Libya was financial accounting and there is no evidence of any auditing practices or professional activities during the Italian period (Kilani, 1988). However, Italians were in control of the whole economic system and Libyans were considered second-class citizens and relegated to the role of providing cheap labour. According to one of the many “Royal Decrees” which were issued, “in no case could a Libyan occupy posts or practice professions which would require an Italian to serve under him” Khalidi (1956, p. 6). Thus, after more than three decades of such rule only sixteen Libyan graduates of university level could be found in the whole of Libya when the United Nations began its work there in 1949 (Khalidi, 1956, p. 6). This reinforces the suggestion that the practice of modern accounting by Libyans during the Italian occupation was limited.

Italian income tax laws. Tax laws are the second factor that contributed to the establishment of accounting in Libya. According to the Libyan Central Bank, tax laws were introduced to Libya for the first time by the Italian colonisation in 1923: “Libya witnessed this type of financial obligation for the first time in its history in 1923” (Central Bank Of Libya, 1971, p.154). According to this law, each registered company was required to provide financial statements and other accounts at the end of each year to the tax authority, prepared according to the 1923 tax law (Bait Elmal, 1981, p. 47). The 1923 tax law was enacted for the Italian environment (Central Bank of Libya, 1971, p.154), and accounting practices were expected to be in line with its

requirements. However, the Libyan environment was far from developing some of the economic activities which were covered by these laws, such as stock exchange, or investment interest on financial, commercial and industrial activities. Bait Elmal (1981, p. 47) reports that “the Italian tax laws were not specially designed for Libya and were not new laws for the Italians, they were in effect in their country, and the Italians implemented the contents of whole laws, when only a few people knew the laws in detail”.

It is important to notice that although the Italian 1923 tax laws were not designed especially for Libya there is evidence that these laws were in effect until 1968, 16 years after the country gained its independence in 1952. As a consequence, Libyans and foreigners were still preparing their tax forms according to the 1923 tax laws (Bait Elmal, 1981). This suggests that the accounting system and practices in Libya continued to have some indirect Italian influence. Further evidence was found by the researcher: some companies in the selected sample were established during the Italian period and were found not to have made any significant changes or adaptations to the types and forms of records and accounting practices after the nationalisation save language translation (see Tables 5 and 6).

To sum up, the Italian accounting profession and law have had a strong influence upon the evolution of accounting in Libya, and some aspects continue to influence Libyan accounting.

6.2.1.3. Accounting during the British rule

Britain and France, who administered the country from 1943 to 1952, made no serious changes to the previous Italian administration, except the closing of all branches of Italian banks and the opening of Britain's Barclays' Bank. In this regard, Murabet (1964, p. 66) wrote:

“France and Britain ran the country (Libya) on a ‘care and maintenance’ basis, the aim of which was to carry on and enforce the laws and methods of the previous Italian administration.”

Since no serious changes took place in economic or policy aspects during the British and French period, the Italians still controlled most of the country's enterprises, and the Italian 1923 tax laws continued to be the only tax laws imposed in the country. Thus, there was little likelihood of any important changes to the accounting profession and accounting practices before the country's independence in 1952.

6.2.1.4- Accounting profession before independence

The history of accounting indicates that professional accounting in developed countries emerged and developed during the industrial revolution. This was partly as a consequence of 1) the separation between ownership and management, and the need to create confidence and trust between management and owners; 2) the developing relationship between tax authorities and taxpayers; and 3) the governments need to enhance its legislation and protect the public (Taylor and Turley, 1986). Clearly, this was not the case in Libya, as the country was under the colonisation of the Turks, Italians and later the British, who did little to develop the country. The local people were kept isolated to live their traditional life without education or training programmes. The need to establish a Libyan profession of accounting was therefore not an issue for local people at that time. Colonisers were responsible for running the country's affairs. Their laws and systems were implemented in Libya. Western accounting firms and international companies were responsible for the initiation and development of the accounting system and profession in Libya.

6.2.1.5- Accounting education before independence

The history of Libya indicates that during the extensive period of colonisation, there were no efficient education or training programmes for the local population. For example, during the Turkish rule, the education system in Libya consisted only of a few traditional Islamic schools which concentrated on teaching the Quran (Stanford Research Institute, 1969, p. 95). During the Italian occupation, the education system for Libyans continued in the same way as during the Turkish occupation. Some Italian schools were opened in Libya for the Italians and a restricted number of

Libyans joined the Italian schools. According to Zarrugh (1959, p. 6), the Italian educational policy was discriminatory and biased against Libyans.

It is reported by both the Mission of the International Bank for Reconstruction and Development (1960, p.8) and the Stanford Research Institute (1969, p. 95) that at the time of independence, more than 90 percent of the population were illiterate and only a handful of Libyans had been given the opportunity to study at university or to qualify for a recognised profession. There was a severe shortage of qualified people to fill administrative and executive positions. There is no evidence of any accounting education in Libya during the Ottoman-Italian occupation.

After World War II, Libya came under the military administration of Britain and France who ran the country on a 'care and maintenance' basis, (see the Memorandum on the Technical Assistance received by the Government of Libya from the UN 1955, p. 5). During that period, the country was prepared for independence and no serious changes were made to the previous Italian administration. No changes in the education system in general, and accounting education in particular, took place before the country's independence in 1952.

6.2.2- Accounting after independence

After World War II, Libya went through several experiences that left their mark on the evolution of accounting. These can also be divided into external factors such as the arrival of foreign aid agencies, the flood of international companies into the country, and internal factors such as the country laws and regulations and accounting education and profession.

The lack of written material about these factors forced the assessment of external factors and their influence upon accounting to be through the historical review of some of the economic and political conditions that led to the evolution of accounting in Libya. Internal factors have been investigated through reviewing historically some of the laws (tax law, commercial law) the accounting profession and accounting education in Libya. Data collected through the questionnaire and reviews play an

important part in assessing the influence of internal and external factors upon the evolution of corporate accounting in the country.

6.2.2.1- Aid Agencies and Multinational Corporations

As mentioned earlier, the country's economic condition deteriorated as a result of the serious damage inflicted during World War II (Simons, 1993). As the country became independent in 1952, the prospects for its economy and social development were described by Higgins (1959) as discouraging to Libyan and foreign investors alike. Commenting on Libya's condition Higgins (1959, p. 37) states that:

“.... Libya combines within the borders of one country virtually all obstacles to development that can be found anywhere: geographic, economic, political, sociological, technological. If Libya can be brought to a stage of sustained growth, there is hope for every country in the world.”

The Economic and Social Council of the United Nations issued a resolution in the early 1950s stating that Libya was in urgent need of aid to improve its economy and also requested all the specialised agencies to take all necessary and speedy measures (Ghanem, 1982, p. 150).

It was not only money that the country was in need of; the rate of illiteracy was high (94 percent) with very limited skilled labour (see Wright, 1982, p. 48 and El Fathaly, 1977). The country therefore relied heavily on advisors, including technicians from Britain, the United States and United Nations in establishing its different systems (Abbas, 1987, p. 14). For instance, many foreign agencies mainly from Britain and the US flooded into the country, such as the Libyan Public Development and Stabilisation Agency (LPDSA), the Libyan American Reconstruction Commission (LARC), the Libyan-American Joint Service (LAJS) and the Libyan-American Technical Assistance Service (LATAS). According to Abbas (1987, p. 14), the Libyans played no role in the administration of these agencies, which were all administered by non Libyans. Accounting systems as a key management tool of these agencies were expected to be British and American oriented, marking a new western accounting orientation in the country. Magdoff (1982, p. 25) pointed out that “control

and influence over the periphery was also sustained by the way economic aid was granted and administered and by the conditions imposed when loans were granted". Britain and America influenced accounting in Libya through these aid agencies, by implementing their own accounting system and Libyans were exposed to British and American accounting whilst working in these organisations. The Libyans in turn continued applying the same accounting policy and procedures.

The country's dependence on foreign aid continued until the discovery of oil in 1955, which made remarkable changes in all aspects of life in Libya. The country became one of the richest countries in the world, instead of the poorest. Monetary aid was no longer needed. However, dependence on foreign aid was replaced by dependence on foreign oil companies who rushed to the country, mainly from America and Britain (Bait-El-Mal et al, 1973). The Libyan petroleum law of 1955 aimed to encourage all kinds of companies, including large and small oil companies, independent, private and government owned companies to explore and carry out oil development operations in Libya (Abbas, 1987, p. 16). According to Waddams (1980), the law itself was formulated by western advisers.

Oil companies were not alone in rushing to Libya after the discovery of oil. There were many other international companies operating in different aspects in Libya. It is reported by Jensen (1976) that in 1969 there were more than 2,000 registered manufacturing concerns, of which only 213 employed more than 20 persons. Most of these plants were built and originally controlled by foreigners (ibid).

In addition to the foreign aid agencies, the main banks which were dominant in the country were foreign. Four out of the five banks operating in Libya were subsidiaries of foreign banks, such as the Bank di Roma, Barclays' Bank, Banco di Napoli, and the Arab Bank. As a result of the domination of foreign companies that had a capitalist orientation, the country itself became more integrated into the capitalist world economy. First (1974, p. 250) states that:

“ Hinged on the structure of industry, the exploitation of oil has made Libya inescapably part of the international capitalist system. Though much of the economy is still blatantly pre-

capitalist, the dominant mode of production is capitalist, linked to giant multinationals resting on American, British and European monopoly capital and management.”

The country suffered a shortage of qualified accountants and was some way from establishing a profession of accounting to specify and control the accounting standards and practice. This was reinforced by the absence of related laws or regulation concerning accounting standards and methods. This might suggest that foreign companies were left entirely free to apply their home country accounting policy standards and practices in their branches operated in Libya. Bait-El-Mal et al (1973, p.90) argues that “foreign companies or branches (in Libya), American and British in particular, follow the generally accepted accounting principles of their home countries”.

Therefore, there is little doubt that these companies contributed significantly in developing and formulating accounting systems and practices in Libya. As a consequence, the accounting system has been influenced towards an Anglo-Saxon accounting orientation. Many companies from these countries flooded into Libya implementing their home country office accounting system and training and employing local people in these companies. According to Bait-El-Mal et al (1973, p. 90), foreign influences, particularly from American and British companies, have contributed significantly to the development of accounting in Libya. They point out two factors of how these influences came about: (1) Libyan staff in these companies were exposed to modern accounting practice; and (2) there was a “trickle-down effect” in that dealing between these companies and local enterprises led to substantial improvement in the generally less-developed accounting systems of the latter.

International accounting firms are another factor which have influenced the accounting system in Libya towards a US and UK orientation. These firms were responsible for auditing foreign aid agencies as well as international companies which were operating in Libya. According to Bait-El-Mal et al (1973, p. 92) “a few

years ago (in Libya, prior to 1973) all public accounting firms were branches of foreign firms controlled largely by foreign head offices”.

When public accountants were asked in this study for their views on the existence of generally accepted accounting and auditing standards in Libya, their unanimous response was that there was no such agreement. This may explain why the auditing process undertaken by international accounting firms was carried out according to processes based on their home standards.

After the revolution of 1969, the structure of the Libyan economy again changed. Several steps were taken by the new government to reform the existing economic situation. International and foreign companies that were operating in Libya were seen by the new regime as exploitative, and in need of being nationalised. In the first year of the revolution, the government nationalised the foreign banks and all their branches in Libya such as the Banco di Roma, Barclays' Bank, Banco di Napoli, and the Arab Bank. By 1977, all the banks in Libya were state-owned enterprises (Abdulssalam, 1985, p. 78).

Although the banks and some foreign companies operating in Libya were nationalised, the accounting policies standards and practices which were applied in those companies, have not been changed. There was no law or regulation whatsoever that prohibited these companies from continuing to apply the same accounting records and systems or even to modify them to match the new environment. The local managers and accountants who took over responsibility continued to apply the same enterprise accounting and practices regardless of their relevance to the new environment. Above all, international auditing firms continued to audit these companies accounts' according to western auditing standards. A discussion with an official in the Libyan Accountants and Auditors Association (LAAA) who had been working as a public accountant before the establishment of LAAA, reveals that there is no real difference between a company's accounting systems before and after their nationalisation. This statement was reinforced by the later findings of this research. Senior accountants in a number of nationalised companies previously owned by

foreigners (including Italian), were asked to indicate whether or not their companies had made any important changes in the accounting system and reports after nationalisation.

To avoid any ambiguity of what was meant by important changes and to increase the reliability of their answers, the respondents were also provided with some details of the accounting system and were asked to rank the extent to which they thought their company had made changes to them after nationalisation.

Given the growth in the number of companies post revolution, those previously privately owned in the sample were relatively small. Eight companies out of the whole selected sample were owned by foreigners before nationalisation. The results show that three (38 per cent of the respondents) of these companies agreed that they had not made any important changes in their accounting system and methods after nationalisation.

Five companies (62 per cent of the respondents) suggested that they made important changes in their accounting system and methods after nationalisation. However, further investigation into the extent to which they made changes in different accounting practices and methods (utilising a standard Likert scale with (1) 'very small changes' to (5) 'very important changes') as presented in Table (5), using the average score⁶ the results demonstrate that the majority of accountants rank the changes low for most of the suggested accounting practices (3, 2.2, 3.6, 2.4, 3, 1.6). This suggests that only limited changes were actually made in their accounting system and practices.

⁶ The average score has been calculated by taking the arithmetic mean of the rank number given by each respondent $\Sigma fx/n$.

Table No (5) The accountants' view of the extent of changes made by their companies to different accounting practices post nationalisation

		M
a	Accounting records and ledgers	3
b	Accounting standards	2.2
c	Accounting methods	3.6
d	Accounting disclosure policy	2.4
e	Forms and contents of accounting reports	3
f	type of accounting reports prepared	1.6

Whilst eight companies is a relatively small group, the weight of evidence is high that little has been done within accounting to respond to significant environmental changes. This implies that the influence on accounting is still highly related to the pre-nationalisation factors such as laws, aid agencies and multinational companies.

6.2.2.2- Laws, Accounting Education and Accounting Profession in Libya

The chapter will now examine the internal factors which are expected to have had some influence on the evolution of accounting in Libya. These factors have been investigated through reviewing some of the laws, profession and education of accounting.

6.2.2.2.1- Laws in Libya

The importance of legal influences on accounting, particularly tax laws, has been cited by many researchers including Taylor and Turley (1986) and Nobes and Parker (1995). According to Watts (1996, p. 237), "under such a system, accounting is likely to be a branch of company law rather than a discipline in itself".

Although the country has gone through many different political, social and economic changes, laws have remained relatively constant. The laws which are in place in Libya and have influenced accounting evolution are the Libyan Tax Laws, the

Commercial Code, laws related to the State Accounting Bureau and the Libyan Petroleum Law.

6.2.2.2.1.1- Tax laws in Libya

The first tax law enacted in the country was the 1923 Italian tax law. As discussed earlier, this law was implemented in both Italy and Libya, and continued to be in effect in the latter until 1968. Although the new Libyan government in 1952 asked for technical help from the UN to reform its economy, continuation of the 1923 Italian tax law was one of the UN's recommendations (Bait Elmal, 1981).

Due to the poor economic condition in Cyrenaica after World War II, the British administration suspended the 1923 Italian tax law in Cyrenaica until 1952 when the new Libyan government enacted a new tax law confined to Cyrenaica. On 25th January 1954, the Libyan government issued a second tax law, which was confined to Fezzan province. According to Bait Elmal (1981), the new Cyrenaica and Fezzan tax laws had the same 1923 tax law characteristics.

During the period of 1952 to 1968, there were three different laws enacted at the same time in Libya. To overcome the conflicts that had arisen as a consequence of these laws, the government issued a new tax law in 1968.

(i) Tax law No. 21 of 1968

This law became the first unified tax law to be imposed in all of Libya (El-Sharif, 1981). The 1968 tax law consisted of the following six main parts:

- ✦ General provisions;
- ✦ Specific taxes;
- ✦ General tax on income;
- ✦ Tax on corporations;
- ✦ Penalties;
- ✦ Final provisions.

According to Bait-El-Mal et al (1973), the 1968 tax law has had an influence on accounting practice in that many companies have adopted tax guidelines for general external reporting. In order to have some insight into the impact of the 1968 tax law upon the evolution of accounting in Libya, relevant sections of the above related law will be reviewed.

1- General Provisions. According to the law all incomes that are generated in Libya, regardless of how they are generated, are subjected to this tax. Article No. 2 of the 1968 tax law, exempts all incomes that are generated from organisations established for non- profit making reasons such as the income of social organisations, charities and religious organisations. Income generated from outside the country is subjected to special treatment.

Article No. 3 of the 1968 tax law states that each taxpayer should submit a tax declaration to the tax authority and that if anyone fails to submit his declaration or the tax authority is not satisfied with his declaration, the tax authority has the right to assess the taxable income as it deems appropriate.

2- Specific taxes. The specific taxes consist of different types of tax for different sources of income, categorised into six groups. According to the specific taxes of trade and industry, any income generated from trade, industry and business, is subjected to tax after deducting all expenses paid to generate this income. Although the law did not define the meaning of income that was to be subjected to tax nor the accounting principles and standards that should be adopted in determining the taxable income, it did provide a list of some deductible and non-deductable expenses.

3- Tax on corporate income. This tax was imposed for the first time on corporations, separate from the personal entity of their owners. Article No. 93 of the tax law states that income generated during a tax year from a company's operation inside Libya is subjected to this tax after deducting all expenses that are related to generating this

income. The taxable income of branches of foreign companies is defined as the gross income generated by operations inside Libya.

(ii) Tax law No. 64 of 1973.

The present income tax law No. 64 of 1973 nullifies the previous income tax law No. 21 of 1968. According to Bait Elmal (1981, p. 51), the new tax law No. 64 of 1973 shows no significant differences from the previous one. It is enacted on the same basis as the 1986 tax law. Reviewing both laws reveals that they are extremely similar, consisting of the same six parts, with very minor changes in some articles such as:

- ♦ A new specific tax was added to part two concerning tax on interest from bank deposits and savings;
- ♦ Article 83 was adjusted to include the dividends of companies to the partners and shareholders. They were previously exempt under the 1968 tax law;
- ♦ Article 39 excluded insurance expenses from tax, with predetermined conditions set explicitly by this law. These expenses became deductible from taxable income; and
- ♦ Article 44 of 1973 tax law changed the allowance percentage for maintenance expenses of real estate from 15 to 20 percent.

With regard to the documents and records that are required by the law, there are few differences. The new law continues with the same 1968 requirements, which are:

- a) Journal record;
- b) Inventory and balance sheet; and
- c) Inventory cards.

This research is limited to accounting in Libyan enterprises, which are subjected mainly to part 4 of the 1973 tax law (tax on corporations). This law is expected to have a special impact upon the accounting systems of these enterprises, and is consequently discussed briefly.

Tax on corporations. According to article No. 93 of 1973, a tax shall be imposed on income accruing in Libya and abroad to companies and branches of foreign companies whatever the nature or object of their activities. In the application of the provisions of this law, "companies" means those companies subject to the provisions of Libyan Commercial Law, including public companies, but excluding partnerships. In addition to companies, other corporate persons whether public or private, if their main activities are commercial, industrial or property development, shall be subject to tax.

In defining the taxable income and the tax period, article No. 97 states that the tax shall be fixed annually on the basis of the amount of net income realised during the tax year. Taxable income shall be determined on the basis of the results of operations, whatever their nature, made during the year, after deducting all charges proven to have been expended in obtaining this income. In this way the Libyan tax regulation does not include any explanation in association with terms such as income before extraordinary items, income after extraordinary items, income from continuing operations and income from discontinued operations. According to this law, all income generated from ordinary or extraordinary activities is subjected to tax.

The law does not define the meaning of income that is to be subjected to tax, nor does it specify the accounting principles and standards that should be adopted in determining the taxable income. It does provide guidance on deductible expenses and non-deductable expenses from taxable income.

According to the law, companies shall submit an annual declaration of their incomes, on the special form, within a month of the date of approval of the balance sheet and within a period not exceeding seven months from the end of the financial year. The companies are also required to submit the following documents with their annual declaration:

- a) Balance sheet;
- b) Operation and loss account (an operating income account);

- c) Profit and loss account;
- d) Schedule of depreciation; and
- e) Detailed statement of all expenses included in the profit and loss accounts.

Although the present law requires all of a company's documents to be prepared in accordance with accounting concepts and signed by a legal representative of the taxpayer, the law does not define the recording procedures, format and contents, nor the accounting principles and standards an accountant should follow.

6.2.2.2.1.2- Libyan Commercial Code

The first law enacted after the country's independence was the commercial law, on November 28, 1953. The law was designed to cover seven commercial aspects: (1) Merchants and Commercial Activities; (2) Commercial Contracts; (3) Banking Transactions; (4) Negotiable Instruments (Bonds); (5) Commercial Papers; (6) Commercial Companies; (7) Bankruptcy and its Preventive procedures (El-Sharif, 1981, p. 37).

In several articles, the commercial code covered some accounting practices and matters, which in turn brought about for the first time a local reference point for accountants in Libya. In order to gain an insight into this law and its relation to enterprise accounting, the accounting practices and matters that are discussed by this law are reviewed.

1. Accounting Records.

Under articles 58 to 64, every business person is required to keep a number of records. Some of these records are:

- a) The Journal: Any daily transaction related in any way to the enterprise's business activities as well as a monthly total of personal expenses must be included in this journal.

- b) The Inventory and Balance Sheet Book⁷: In this book the business person must keep an annual inventory list, a profit and loss account and a balance sheet.
- c) Files: every business person must maintain in special files, copies for letters and telegrams received or sent in relation to the business activities.

2. Valuation rules.

The law determines some of the accounting rules that have to be followed in evaluating some items of the enterprise's assets and liabilities such as:

- a) Fixed assets, which must be valued at their historical cost at the time of purchase and reduced by the related depreciation in each financial year;
- b) Recorded trade marks and industrial patents should not be valued higher than their cost or purchase price. The value of trademarks should also be amortised in each financial period according to their useful life;
- c) Goodwill must not be recorded as a company's assets unless it is gained by purchase, and should be amortised in accordance with the estimate of the directors and the boards of auditors;
- d) Debts should be valued at their realisable value; and
- e) Research and development costs may be capitalised with the consent of the board of directors.

3. Discretionary reserves.

According to the commercial code, each corporation has the right to stipulate in its charter the purposes of the use of reserves taken from the annual net profits.

4. Legal reserves.

According to article 577 of the Libyan commercial code, each corporation is required to retain five percent of the annual net profit before tax as a legal reserve, with a maximum amount of 20 per cent of corporation's capital.

⁷ There is some confusion amongst accountants in Libya as to what is meant by 'balance sheet book'. This may reflect one of two influences either the law which may well have a section imported and the translation into Arabic has lost some of its original meaning or those who drafted the legal framework were inadequately schooled in accounting

5. Invested capital.

Articles 586, 590, 593, 594 are concerned with the increase and decrease of the invested capital, such that any corporation may increase or decrease capital in accordance with the conditions that are set out in law.

6. Financial statements.

It is stipulated by article 572 of the commercial code that any business or corporation should prepare at least once a year a balance sheet and profit and loss account. The commercial law paid more attention to the balance sheet by providing guidelines on some items within the balance sheet, with little concern for the profit and loss account.

Effectively the commercial code was the first Libyan law, discussing matters that drew attention to accounting practices and methods. Although the laws provided a broad framework about some accounting aspects, they gave little detail on the form and design of the accounting records and did not specify the accounting principles and standards that should be adopted. Furthermore, they did not specify auditing standards or ethics.

At the time when the law was formulated, the country was in the early stages of independence. There was an acute shortage of locally qualified staff as well as limited experience of companies and economic activities covered by the commercial law. This suggests that the law itself was not formulated entirely by local people but was heavily influenced by foreign agencies and advisers, mainly from the UK and the US. This led the law and its consequent effect on enterprise accounting to have an Anglo-Saxon orientation.

6.2.2.2.1.3- State Accounting Bureau (SAB)

In 1963, the first local Libyan government body with responsibilities for controlling the revenues and expenses of all the state agencies, departments, organisations aided by the government, and other corporations (to which the state contributes more than 25 percent of the capital), was established. The members of the SAB had to have a

university degree in either law, economics, or accounting. According to the SAB Law published in November 1963, this institute was an independent body, which, after auditing all the government accounts, should report directly to the prime minister. In 1966, the SAB was revised and modified with new expanded responsibilities in scope and nature.

Although auditing the accounts of government and public enterprises is a prime objective of this body, there is no evidence of any specific accounting or auditing standards having been adopted. As a British Chartered Accountant (J. H. Newbegging), was the director of the SAB until 1969, it is possible that UK accounting standards were dominant, which reinforces the influence of the UK accounting system in Libya.

In 1975, there were some changes in regard to the objectives, responsibility, and name of the SAB. According to law No 79 of 1975, the objectives of the SAB were to examine all the state agencies, departments, organisations aided or receiving loans from the government, and any other corporations to which the state contributed more than 25 percent of the capital. The responsibility of SAB was expanded to include:

- a) revenue control;
- b) expenditures control;
- c) administrative contracts examination;
- d) review of laws and regulations;
- e) nomination of external auditors to state enterprises; and
- f) preparation of the annual report (Law No. 79 of 1975).

In 1988 and according to Law No. 7 of 1988 issued by the Libyan General Congress, the State Accounting Bureau was merged with The Central Institute for General Administration Control, The Public Institute for Follow up and The Institute for Public Works. The new name was The Institute for Public Follow up. According to Law No. 7 of 1988, this institute was an independent body, which, after auditing all the government accounts, should report directly to the Libyan General Congress. According to law No. 8 of 1988 in connection with the Institute for Public Follow up,

the State Accounting Bureau became a branch with three departments within this institute. These departments included: (a) The General Directorate for Auditing General Accounts; (b) The General Directorate for Auditing Companies Accounts; and (c) The General Directorate for Programming and Accounting Systems.

However, there was no change in regard to the accounting and auditing standards to be adopted in Libya. Adopting certain accounting practices or standards was left entirely in the hands of the accountants working in these institutes. As the accounting education of those accountants was mainly Anglo-Saxon oriented, the accounting and auditing standards implemented had a similar orientation.

In 1996, law No 11 was enacted. This changed the name of the Institute for Public Follow up to Institute of Public Control (IPC), and extended the responsibility of the IPC to include auditing foreign companies operating in Libya. However, there was no change in regard to the accounting and auditing standards to be adopted.

In theory the IPC should examine all the state agencies, departments, organisations aided or in receipt of loans from the government, and any other corporations to which the state contributes more than 25 percent of the capital. In practice, for many reasons including shortage of staff, delay in auditing such accounts has become a serious problem. Most of these works, particularly the auditing of state enterprises, are transferred to public accountants directly responsible to the IPC instead of the company's director.

6.2.2.2.1.4- Libyan Petroleum Law

The other law expected to have an influence upon the evolution and development of accounting in Libya, particularly in the oil sector, is the Petroleum Law, which was enacted in 1955. According to Waddams (1980, p. 78-79), to encourage the international oil companies to invest and explore oil in Libya, the Libyan petroleum law was tolerant and generous. Although it specifies most of the accounting records and financial statements, in many instances it does not prohibit international oil

companies (mainly British and American) from applying their home country oil accounting practices.

The country's lack of qualified and experienced accountants and/or organised professions by which the country could audit and impose Libyan accounting systems, has led all the oil companies to continue to implement accounting systems that were applied in their original home countries.

This study is limited to non-oil companies. It is therefore not felt necessary to discuss this law in detail. However, what cannot be ignored is its expected indirect influence upon accounting in non-petroleum enterprises, through accountants and auditing firms working in both sectors.

6.2.2.2.1.5- Influences of Laws on Accounting in Libya

The general review of laws and accounting in Libya reveals that tax laws and the commercial law played a significant role in the evolution and development of the present accounting system. The laws have brought about for the first time some modern accounting practices implemented by Libyan companies. El-Sharif (1981) has pointed out that the most important contributions made by these laws, was to encourage Libyan taxpayers to keep proper accounting records through the following conditions:

- a) whenever there are no proper accounting records, taxable income can be overestimated by a tax official;
- b) complaints about tax assessments based on estimates are not accepted by the tax authority from any business firm without the support of proper books and accounting records;
- c) every individual responsible for the management of business firms who fails to keep the accounting records required by law is liable to a maximum fine of 1,000 Libyan Dinars; and
- d) anyone who prepares untrue accounts, books, reports, or balance sheet is subject to imprisonment for one year, a fine of 500 Libyan Dinars, or both penalties.

In this study, evidence about the importance of the law in bringing about some of the accounting practices can be inferred from the responses to the questionnaires (see for example Table 6). Managers of the selected companies in this study were provided with a list that included some of the possible reasons behind the preparation of companies' financial reports. They were asked to indicate their assessment of the level of importance of these reasons (utilising a sliding scale of importance ranging from (1) 'not at all important' to (5) 'very important').

As indicated in Table (6) "complying with the countries' laws and regulations" has the highest ranking amongst the listed reasons with an average score of 4.34 This suggests that laws and regulations are highly responsible for bringing about some of the accounting practices in Libya. The factors "Responding to the considerable interest from different users to receive accounting information" and "Providing useful information to people who have an interest in or are expected to have an interest in the company's activities" show a relatively high ranking (3.1 and 3.9 respectively). The investigation of the quality of information provided by companies' accounting reports and questioning the users who receive reports (see chapter seven) does not support the importance of these factors in the preparation of companies' financial reports.

Table No (6) Managers' views of the important reasons which lie behind their preparation of accounting reports

		M
a	Complying with the government's laws and regulations	4.3
b	Responding to the considerable interest from different users to receive accounting information	3.1
c	Providing useful and relevant information to people who have an interest or are expected to have an interest in the company's affairs	3.9
d	Others	0

Neither the commercial law nor tax laws specified the accounting principles and standards. However, the income tax law and commercial code became important guidelines for accountants in Libya. El-Sharif (1981, p. 39) pointed out that “in the absence of an organised accounting profession, the Income Tax Law has a significant impact upon the practice of accounting in Libya. It appears that many business firms incorporated tax regulation as well as Libyan commercial law requirements in the external financial reporting”. The influence of laws on accounting in Libya can be seen in the responses of accountants in the selected companies who were provided with a list of the possible sources of accounting practices and methods and were asked to indicate the extent to which they rely on each of them in producing accounts (utilising a standard Likert scale with (1) ‘very low’ to (5) ‘very high’). The findings in Table (7) show “Libyan laws and regulations” are one of the main sources for their accounting practices ranking the highest average score among the other listed sources (4.14). Although “companies previous procedures” ranked (3.8) it does not lessen the influence of laws as the origins of a company accounting system expected to be also influenced by law. “General Accepted Accounting Standards” also have a relatively high rank (2.64), but the absence of any agreed accounting standards between accountants in Libya makes the source of its influence questionable. The evidence in Table (7) confirms that this situation is still the case seventeen years after Younis’s findings.

Table No (7) Accountants’ views about the main guidelines they rely on to prepare their companies’ accounting reports and practices

	M
a	Libyan’s law and regulations
b	The accounting pronouncements of the Libyan accounting profession
c	Following the company’s previous procedures
d	GAAS
e	Others
	4.14
	1.8
	3.8
	2.64
	0

In another attempt to investigate the influence of law on accounting in Libya, accountants in Libyan companies were provided with a list of possible factors that

have contributed to the development of accounting, and were asked to indicate the extent to which they thought each of these factor has contributed in development of accounting in Libya (utilising a standard Likert scale with (1) ‘very low’ to (5) ‘very high’). As presented in Table (8) ‘government laws and regulations’ are considered one of the important influential factors with an average score of 4.2 Other influential factors are seen as ‘western colonisation’ and ‘foreign companies’ ranking 4.7 and 4.3 respectively. There is a general agreement between the respondents that ‘education of local accountants’ and ‘Libyan accounting profession’ have played a limited role in the development of accounting in Libya. This result reinforces the above findings that law has played an important role in the development of accounting in Libya.

Table No (8) Accountants views about factors that have contributed to the development of accounting in Libya

		M
a	Government’s laws and regulation	4.2
b	Education of local accountants	3.5
c	The influence of foreign companies	4.3
d	Western colonisation	4.7
e	Libyan accounting profession	1.2

The general review of the development of the country’s laws as they passed through different economic and political stages, indicates limited government involvement. This is because first, according to Abbas (1987, p. 14) the country relied heavily on advisors, including technicians, from Britain, the United States and United Nations to establish the country’s different systems, including laws (for more details see Waddams 1980, p. 57); second there is little noticeable difference to the original Italian tax law. Many of the articles in the 1923 Italian tax law were not changed. All of this suggests that the present laws have not responded significantly to environmental factors but have retained heavy external influences.

6.2.2.2.2- Accounting Education in Libya

At the time the country became independent in 1952, the prospects for its economy and social development were discouraging. The memorandum on the Technical Assistance received by the Government of Libya from the UN (1955, p.27) pointed out that a shortage of qualified personnel to fill clerical and technical positions in the administrative and public services is one of the country's most serious handicaps. The country relied heavily on advisors, including technicians, from Britain, the United States and the United Nations to establish the country's different systems (Ibid). The education system, including accounting education was established under the advice of the foreign agencies (Ibid).

According to Agami and Alkafaji (1987, p. 152), "the development of accounting education is dependent on the level of the accounting profession and practice in the country". In Libya, both the accounting profession and practice were still in their early infancy. Thus it was that the United Nations Mission which brought about the recognition of the importance of accounting education for the first time in Libya, by recommending the establishment of the first school of Public Administration in 1953 (Memorandum on the Technical Assistance received by the Government of Libya from the UN 1955). The education system, including accounting education, was established on the advice of foreign agencies (Ibid). Accounting education was focused entirely on the intermediate level aimed to develop graduate clerks and book-keepers. Accounting education at the university level started in Libya in 1957, when the Faculty of Economics and Commerce was opened with a special Department of Accounting within the University of Garyounis.

As Libya embarked on its accounting education and training programmes, the country was in the early stages of its development. It was some way from having locally qualified, or expert accountants. Inevitably, accounting education was foreign influenced. Agami and Alkafaji (1987, p. 152) reported that "despite the differences between developed and developing countries, many developing countries have taken the easy way to create their accounting educational systems by copying systems of developed countries". To a large extent this was the case in Libya, where the

education system and text books were brought from western countries, mainly from Britain and America, through the United Nations. For example, the Memorandum on the Technical Assistance received by the Government of Libya from the UN (1955, p. 29) reported that the United Nations Technical Assistance Administration provided instructors in Accountancy and book-keeping and their curriculum included Principles of Accountancy and Book-keeping and Government Accounting as principal subjects. The teachers and lecturers were foreigners, mainly from Egypt which was already influenced by British accounting systems (Bait-El-Mal et al, 1973). Britain and America were also the major locations for students sent abroad to train and study accounting.

Hove (1986) argues in this regard that the transfer of accounting education from one country to another occurs as a result of political reasons, when one country has strong political ties with another. He points to colonisation as a form of political tie. The good political relationship that existed between Libya and Britain before and during the early years of independence, has played a significant role in transferring the accounting education system from Britain to Libya. Agami and Alkafaji (1987) made a survey of education systems in a selection of Arab countries, including Libya, and assert that politics has played a vital role in shaping and forming accounting education in those countries studied. This fact is reinforced by Bait-El-Mal et al (1973) who reported that the early program in the Faculty of Economic and Commerce in the Libyan University (which was the first faculty to teach accounting) was completely British orientated.

After the discovery of oil in the early 1960's, and as a result of economic growth, the need for accountants as well as clerks and book-keepers became more apparent in Libya. To meet this needs for accountants and managers, many other institutes at the level of intermediate and higher institutes and universities were set up. In general, accounting education in Libya can be divided into an intermediate level and a higher level.

(1) The Intermediate level consists of Commercial Institutes and secondary commercial institutes. Students must have finished preparatory school before they can study at these institutes. Most institutes have a four-year programme and are designed to produce graduates to be clerks and book-keepers. There are more than 30 of these intermediate institutes established and distributed all over the country. They may be called by different names and some of them may have a shorter programme than others, however they follow the same curriculum of the Institute of Public Administration (which was established under the supervision of the UN) and teach from the same text books. The severe shortage of accountants in the country has led to a situation where a considerable number of accountants who, having graduated from these institutes, are found in senior positions in accounting departments in companies or government agencies.

(2) The Higher level of accounting education consists of higher institutes and universities. It was started in 1957 by the establishment of The Faculty of Economics and Commerce at Garyounis University. The accounting department in this faculty is the most influential factor in the development of accounting and accounting education in Libya. This was due to the fact that the faculty was for more than twenty five years (from 1957 to 1981) the only institute to offer accounting education at university level, and many of the local influential accountants such as professional accountants in Libya are graduated from The Faculty of Economics and Commerce at Garyounis University.

As stated earlier, Bait-El-Mal et al (1973) reported that the early program in the Faculty of Economics and Commerce in the Garyounis University was completely British orientated.

An review of the courses currently offered by the faculty (see appendix No 1) demonstrates a significant emphasis of private sector financial accounting. 50 credit hours out of 123 required for graduation must be in accounting courses. 74% of this total deals with issues of financial accounting and auditing in the private sector. The balance is made up of approximately 14% (or 20%) cost and managerial accounting

count for only three courses (one of them is optional) and 6% (or 12%) on government accounting (one of these courses is optional). Given the economic structure of Libya this balance reflects little change since the original British curriculum was introduced. An examination of the other subjects studied to make up the total credit hours is further evidence, as they have a largely private sector orientation. The student is required to study micro economic and financial management (private sector) whilst the study of macro economic and Public finance are optional.

However, most of the accounting text books used in Libya until now have been Arabic translations from English. The text books are mainly written to serve the free market countries. Very little emphasis has been given to those aspects needed by the Libyan government such as public sector accounting or macro accounting. For students studying accounting abroad, Britain and America were the major locations. For example, in this research 64 per cent of public accountants who completed the questionnaire studied in the UK or the US, and 28 per cent in Libya. The other 8 per cent studied in mainly Arab countries. This is also found to be the case for companies' accountants who completed the questionnaire. 58 per cent studied in Libya, 12 per cent in the UK or the US, and 30 per cent studied in mainly Arab countries.

The increasing demand for accountant and accounting in the early of 1980's created the need for additional higher institutes, in addition to Garyounis university, to teach accounting. These include the Faculty of Economics at El-Fatheh University, and Faculty of Accounting at Al-Jabal Al-Gharbi University. A further set of new higher institutes and universities was established in the early 1990's and many new accounting faculties and departments were opened such as Faculty of Economics at Tahaddi University, Faculty of Economics at Sebha University, and Faculty of Economics at Omar Elmukhtar. This is in addition to some accounting department within higher institutes. There are now more than 15 academic accounting departments distributed between universities and higher institutes in Libya. Accounting on Postgraduate level particularly Master degree also started to be open

in Garyounis university, Faculty of Economics at El-Fatkeh University, and Faculty of Accounting at Al-Jabal Al-Gharbi University.

The limited number of university academic staff, particularly in accounting, combined with the rapid increase of accounting departments and student numbers, has led to a dramatic shortage of academic accounting staff. To overcome this problem, lecturers from different countries were invited to teach in these departments. In addition, a number of available staff were encouraged to teach part-time in further departments in different universities or institutes. Until now it has not been uncommon to find an accounting department with only one or two full-time lecturers and the rest of the staff working part-time from other universities. The initial lecturers came from Grayounis University and it is therefore not surprising to find that the education system, accounting curriculum and text books are a carbon copy of those of Garyouins University.

The author has experience as a Libyan accountant graduating from Garyouins University, and as a full-time lecturer at the Faculty of Accounting in Gharyan, and as a part-time lecturer at El-Fateh University and some other higher institutes in Libya. This experience reinforces the claim that accounting education at the higher level has similar characteristics, uses the same text books and a similar curriculum. These are all a copy of Garyouins University. The majority of these universities and higher institutes have not made any significant changes to the original imported education system. Most courses on offer are not related to the Libyan environment and have never been subjected to any serious attempts to modify or change in order to be more relevant to the Libyan environment. Thus, it was not surprising to the researcher to find that most accountants who were contacted to fill in the questionnaire, had limited awareness of the relevance of the present accounting system to the Libyan environment. Accountants in Libya have been fed western ideas and systems and therefore do not usually question its relevance. They learned that western accounting is a modern accounting system built on Generally Accepted Accounting Principles and valid to be applied universally. Failure to comply with its rules and standards, is considered to be a violation of the profession and something

that will hamper the development of the standing of the accounting profession in the country.

There are no critical courses or research activities in Libyan accounting departments, nor are there postgraduate accounting training programmes which may help to create an awareness of the differences between developing and developed countries. This is clear since there are no professional institutes where students can obtain pre-job training after graduation. However, accountants in the selected companies were asked if they had attended any courses or training programmes after their graduation. As indicated in Table (9) the majority of accountants, 72 and 90 per cent respectively, did not attend any training courses nor were they involved in research programs.

Table No (9) The participation of companies' accountants in training and research programs

	No		Yes	
	f	%	f	%
Training programmes to understand the information needed by the Libyan environment	36	72	14	28
Research programmes about developing Libyan accounting relevance to the Libyan environment	45	90	5	10

Thus, there is very little in the education system which leads to a desire to challenge the relevance of the model of a developed country's accounting system to Libya. Agami and Alkafaji (1987, p.158) summarise the consequences of the above conditions, "an accounting educational system that places excessive emphasis on accounting and inadequate emphasis on general education is likely to graduate skilled accounting technicians but is not likely to produce broadly educated human being. The graduates from such narrow educational systems will not be able to appreciate their human cultural heritage or to provide the informational needs of society".

It is possible to infer from this that accountants in Libya are more concerned with meeting imported accounting standards than examining the relevance of the adopted systems in providing the relevant information to users. This obviously affects the

quality of the accounting information they provide. According to Enthoven (1982) it is not very beneficial to simply copy education systems from abroad without assessing them in the light of a country's requirements. It is worth referring here to Belkaoui's (1988) recent survey of experts which gives a rough ordering of the relevant importance of the major accounting practice and education problems and their causes in the developing countries. This survey indicated that many of the most important accounting problems are believed to result from causes deeply rooted in accounting education. Therefore, for accounting education to be useful for socio-economic development, it must be integrated with Libya's environmental needs, diverted to include more courses on public accounting and government accounting, and students should be exposed to real business problems in order to learn how to solve them.

6.2.2.2.3- Accounting Profession in Libya

As mentioned earlier, before the country's independence, colonisers were responsible for running the country's affairs, and implemented their laws and systems. Western accounting firms and international companies were responsible for the initiation and development of the accounting system and profession in Libya. This continued to be the case even after the country's independence, as the lack of locally qualified and expert accountants, reinforced by the domination of western companies, provided the conditions in which a western accounting system and profession prevailed. According to Bait-El-Mal et al (1973, p. 92), after World War II the accounting principles and auditing standards in Libya follow those of Britain, in other words, a derivative from the British rule.

The discovery of oil in the early 1960s provided the country with enough money to establish and develop economic activities leading to independent growth of the Libyan economy. Investors, creditors, and managers as well as state agencies in Libya became in need of more reliable information. The limited number of locally qualified accountants led the government to place no restrictions on Libyans wanting to work as professional accountants providing they held an accounting qualification. A number of public accounting firms started to open in addition to foreign

accounting firms mainly from Britain and America. According to Bait-El-Mal et al (1973, p. 92) “a few years ago (prior to 1973) all public accounting firms were branches of foreign firms controlled largely by foreign head offices”. There was no organised public accounting profession.

It was only in the early 1970s, that the need was felt to establish an accounting profession which could take the responsibility of developing a general framework of accounting in Libya. This need was partly a result of the inconsistency and lack of uniformity in many of the accounting standards, practices and methods. In order to overcome this problem and to organise the accounting profession in Libya, Law No. 116 of 1973 was enacted.

6.2.2.2.1- Law No. 116 of 1973

On 20 December 1973, the first law to regulate and organise the accounting profession in Libya was enacted. This law consists of eight chapters:

- a) The establishment of the Libyan Accountants and Auditors Association;
- b) Registration of accountants;
- c) Exercise of the profession;
- d) Fees;
- e) Pension and contribution fund;
- f) Obligations of accountants and auditors;
- g) Penalties; and
- h) General and transitional provisions.

The Libyan Accountants and Auditors Association was set the following objectives that needed to be achieved:

- ♦ To organise and develop all matters related to the accounting profession and to improve the standards of accountants and auditors professionally, academically, culturally and socially;
- ♦ To organise and participate in conferences and seminars related to accounting, as well as conducting education and training programmes;

- ◆ To establish a retirement pension fund for its members.
- ◆ To increase co-operation between its members and to protect their rights; and
- ◆ -To take action against members who violate the traditions and ethics of the profession.

According to the law there are two classifications of membership. The first includes working accountants and auditors which is further broken down into two groups of accountants and assistant accountants. The second membership classification is that of non-working accountants and auditors. This is also divided into two groups of non-working accountants and auditors and non-working accountants' and auditors' assistants.

The law also put into place certain requirements for any accountants wanting to be registered as a member of the working accountants and auditors. According to articles No. 24, 26, and 28 of the law, accountants wishing to do so must meet the following requirements:

- ◆ Hold Libyan nationality;
- ◆ Have a Bachelor's degree in accounting;
- ◆ Enjoy political and civil rights;
- ◆ Have the necessary conduct, reputation and respectability required for the profession; and
- ◆ Have five years' experience of accounting work in an accounting office after education;

Accountants who hold a degree higher than a Bachelor's degree in accounting are exempt from the experience requirement. Accountants who have a Bachelor's degree in accounting without experience can only be registered in the working assistants group, and after two years' experience they have the right to practise the profession with some limitations. Accountants who have a Bachelor's degree in accounting and do not intend to practise the profession are listed as non-working accountants.

According to El-Sharif (1981, p. 42) the law N. 116 of 1973 had a significant impact upon the development of the accounting profession by establishing the Libyan Accountants and Auditors Association (LAAA). It was the first attempt to organise and develop the profession of accounting in Libya. A general review of the objectives and regulations of the LAAA reveals that although the organisation has clear objectives and regulations, at least in theory, it has not gone far enough to enact a code of professional ethics or to specify certain accounting and auditing standards and principles that would be expected to have been adopted by the profession in Libya.

Part of the empirical study of this research was to investigate the role of the LAAA in (a) developing or modifying the accounting system to be more relevant to the Libyan environment; (b) overcoming the inconsistency in accounting practices in Libya by developing agreed accounting and auditing standards and principles; and (c) in organising and controlling the accounting profession in Libya.

To gather the necessary information for the above purpose, the selected sample of Libyan public accountants was provided with a list of some of LAAA's objectives and other related matters and asked to rank the extent to which they think the LAAA succeeded in achieving them (utilising a standard Likert scale) with (1) 'very low level of achievement' to (5) 'very high level of achievement').

As implied in Table (10) there is a general agreement between public accountants that the LAAA has played only a limited role in almost all of the matters listed. For example, the findings show that Libyan professional accountants have no role in developing accounting and auditing standards nor a code of ethics, with an average score of (1.2). A very limited role in conducting effective research programmes to help develop or modify accounting in order to be useful and relevant to the Libyan environment ranked an average score of (1.5). Also, the accounting profession in Libya plays a limited role in issuing instructions about accounting practice and methods with an average score of (1.3). There is also weak professional control over accounting practice and policy, with an average score of (1.2), and deficiencies in

monitoring accounting education in Libya ranked an average score of (1.1). However, 'Setting legislation concerning the requirements for the professional membership' ranks the highest average score amongst the other listed matters (2.7). This may reflect the monopoly position of the profession and the desire to safeguard its position and the consequent interests of its existing members.

Table No (10) Public accountants' views on the achievements of LAAA

		M
a	Developing accounting standards	1.2
b	Developing auditing standards and a code of ethics	1.2
c	Conducting effective research programmes to help develop or modify the accounting system to be more useful and relevant to the Libyan environment	1.5
d	Issuing instructions about accounting practice and methods	1.3
e	Issuing recommendations relating to specific controversial accounting issues	1.1
f	Controlling accounting practice and policy in Libya	2.1
g	Setting legislation concerning the accounting profession in Libya which deals sufficiently with the subject of membership	2.7
h	Training accountants to cope with the country's environment	1.1
I	Create awareness of the relevance of the present accounting reports to Libyan culture	1.7
j	Issuing official pronouncements for government auditors	1.1
k	Monitoring accounting education and training in the country	1.1
l	Involved in guiding the government (Secretary of Finance and other related government agencies) in drafting laws	1.2

Public accountants in the selected sample were also provided with a list of possible accounting services and asked to indicate the extent to which they provide each of these services (utilising a standard Likert scale with (1) 'very rare' to (5) 'very frequently'). The findings in Table (11) show that public accountants in Libya are mainly engaged in auditing and preparing financial reports. These ranked highest among the other listed services with average scores of 3.2 and 4.2 respectively. Other services are rarely provided, particularly when they are not required by law and there is low demand for them.

Table No (11) Relative balance of work of the services they provide.

		M
a	Preparing financial reports	3.2
b	Auditing financial reports	4.2
c	Tax services	2.3
d	Solvency and Liquidation	1.8
e	Consultations on different accounting issues	1.2
f	System design and installation	1.1
g	Management consulting	1.1
h	Other services	0

Although, one of the main objectives of the accounting profession is to develop an accounting system that is relevant to the Libyan environment. In reality, the profession seems to play a significant role in retaining external influences and pays little attention to developing relevant accounting systems. This can be related to many factors: (1) the limited role played by the profession in developing local accounting standards as alternatives to western ones (See Table 10); and (2) the development of the accounting profession has been influenced by many factors causing it to follow the same path as its counterparts in the US and the UK. These factors include: international companies (mainly from the US and the UK), international accounting firms (mainly from the US and the UK), accounting education, accountants from other countries, and Libyan students coming from abroad (mainly from the US and the UK).

The influence of the US and the UK on the accounting profession can also be seen when public accountants in this research were provided with a list including some of the possible criteria on which auditors will write their auditing reports, and were asked to indicate their assessment of the level of importance (utilising a sliding scale of importance ranging from (1) 'not at all important' to (5) 'very important'). As Table 12 shows, a relatively high concern is paid by auditors to "preparing financial reports in accordance with the Generally Accepted Accounting Standards" in writing their auditing reports, with an average score of (3.1). This is despite the fact there is

no agreement by the accounting profession nor Government about which specific GAAS should be adopted. Prior evidence indicates that accountants fall back on their western “Anglo Saxon” training in searching for compliance with GAAS.

Table No (12) Public accountants views of their main concern in writing their auditing reports

		M
a	The financial reports comply with General Accepted Accounting Standards	3.1
b	The financial reports comply with Accounting Standards and pronouncements issued by LAAA	1.2
c	The annual financial statements comply with Libyan Laws and regulation	4.2
d	The financial accounting reports provide useful and relevant information for the users of accounting reports	2.1

Therefore, it may be safe to conclude that the accounting profession in Libya is still in its infancy and is mainly concerned with external financial reporting and external auditing. There are no definite rules, accepted principles or standards developed by the profession, making it difficult to challenge the quality of accounting methods and reports chosen by public/company accountants. This loose regulation seems to be preferred by public accountants as it protects their own interests.

6.3- The current status of accounting in Libya

The discussion in this chapter so far indicates that Libyan accounting is mainly imported from developed countries such as the UK and US. There is no evidence for any serious changes or adaptations to date of the adopted accounting systems.

The UK and US accounting systems are characterised as mainly oriented towards external auditing and external financial reporting, as does the current accounting system in Libya. The emphasis is on preparing external financial reports which are mainly in compliance with the law rather than to provide useful information to users (see Table 6). The law does not go beyond asking companies to prepare accounting reports other than the Balance Sheet and Profit and Losses account. As a

consequence, public companies in Libya have followed suit. In this connection the review of some companies' financial statements indicated that statements such as changes in financial position, value added, employment reports, and money exchange with government rarely exist. Data represented in published financial statements are based on an historical basis only, there is no information about the impact of inflation. Moreover, in the published financial statements, items are represented in aggregated figures, with very little detail about their components, which leads to incomplete information being disclosed. None of the companies provide any financial ratios, such as return on capital employed.

Evidence provided later suggests that internal reports are rarely prepared by public companies and there are only a limited number of companies who have a managerial accounting system, see table (27).

There are no accounting principles or auditing standards and as yet no code of professional ethics has been developed in Libya. The only requirement emerging from laws such as tax and commercial law impose very limited information requirements. However, as they are loose and do not specify any accounting standards to be adopted, they are of limited usefulness in terms of establishing a general framework and guidance to accountants. As a result, the choice of accounting standards, methods and techniques is left entirely to the discretion of the companies' accountants, managers and auditors. The absence of a complete framework for the accounting system in Libya, gives managers or accountants the chance to choose among various accounting principles and methods without being challenged. This may result in abuse of that discretion by managers for personal interests. Also, the absence of a complete framework for the accounting system has led the current accounting systems implemented by Libyan companies to differ from one company to another, in accordance with the education background or desire of their accountants, managers or auditors. This conclusion is supported by public accountants in Libya who were asked to select between different factors as to the main reason for variances in accounting standards and methods between companies in Libya. As presented in Table (13), "The absence of sufficient accounting

regulation” was the highest among the other reasons and was ranked 65 per cent. “Accountants different background” was also relatively high with 45 percent, whereas, “As a response to companies’ type of activities” was the lowest among the suggested reasons.

Table No (13) Public accountants views about the main reason for variances in accounting standards and methods between companies in Libya

		No		Yes	
		F	%	F	%
a	The absence of sufficient accounting regulation	14	35	26	65
b	Accountants different education background	22	55	18	45
c	As a response to the company’s type of activities	30	75	10	25
d	Others	0	0	0	0

In brief, the status of current accounting in Libya is that there is no comprehensive or authoritative set of accounting and auditing framework on which accounting in Libya can be developed, organised, controlled, and evaluated. Most of the individuals interviewed were not satisfied with the status of accounting, and all wanted more effort to be made to develop accounting in Libya⁸.

6.4- Summary

Several factors seem to have affected the way in which accounting systems and practices in Libya have evolved. These factors were classified into two major categories: (1) external factors, and (2) internal factors. The influence of these factors on the development of accounting in Libya was discussed historically and empirically during two periods of time i.e. before and after the country’s independence.

⁸ Interviews with officers from ministries of Economic and planning, Industrial, Treasury, and Central Statistic Office,

The chapter indicated that accounting in Libya has emerged from a range of sources, external and internal factors. External factors such as colonisation, aid agencies and multinational companies, seem to have played a significant role in the evolution and development of accounting in Libya.

During the Turkish period, Libya was ruled by traditional systems and there was no evidence of the existence of any modern accounting practices, education and profession. Modern accounting practices were brought to Libya for the first time by the Italians in the 1920s. Since the Italian accounting profession was not strong and advanced at that time and the Italians had kept accounting practices and education for themselves, their accounting influence on Libya was not deeply instilled. However, Italian accounting influences can still be found in some accounting practices in some Libyan companies.

The strong ties that existed between Britain and Libya, particularly after independence, have made British accounting influences prevail in Libya. This was due to the fact that most of the aid agencies and multinational companies who were first to rush to the country were British and American. There is no evidence to suggest these companies and aid agencies used a special accounting system for Libya. It was indicated that these companies continued to implement their own country's accounting systems in Libya. Furthermore, British and American accounting companies were responsible for auditing accounting reports in Libya.

Internal factors, such as the country's laws and regulations, accounting profession and accounting education have also played a role in the evolution and development of accounting in Libya. Although the country's laws have contributed significantly, they are expressed in loose and general terms, and seem to be highly influenced by an historic orientation based on previous colonial administrations.

Before independence, accounting education in Libya was neglected. It only started in the early 1950s under British and American influence. After independence, Libya took the relatively easy way to create its accounting educational systems by copying

systems of developed countries. To a large extent, the accounting education system and text books were brought from western countries, mainly from Britain and America. Similarly, the material taught is based upon the Anglo-Saxon background and as yet there is no evidence of any serious attempt to develop or change the accounting education to be more Libyanised. The influence of the US and the UK on accounting in Libya is reinforced by the fact that they were the main destinations for Libyan students studying accounting abroad.

The country's profession of accounting is shown to be relatively new and its influence on accounting development in Libya is very limited. It has substantially retained the Anglo Saxon approach and has played no obvious role in developing or modifying accounting in Libya.

It was obvious that the Libyan laws, curriculum and accounting profession have substantially retained the original forms, format, and wording of the external influences. The findings of the chapter suggest that the Libyan accounting system closely parallels and follows the general philosophical approach of British (and to a very limited extent Italian) accounting and auditing practices. As the emphasis in the UK is mainly concentrated on financial accounting and auditing in the private sector, so is the accounting system in Libya. It is essentially run according to private enterprise accounting norms. Although the Libyan accounting system has the same features as the UK accounting system, until now the country has not developed a comprehensive and authoritative accounting and auditing framework.

It is important to highlight that although the Italian companies and accounting profession were the first to bring modern accounting to Libya, their influence on the orientation of accounting is low compared to the UK and US, and is restricted to specific companies. This can be attributed to reasons such as (1) The Italian occupation of Libya was for three decades, however during most of this period there was conflict with the local people; (2) Italian professional accounting was not strong enough to maintain the responsibility for establishing their own accounting profession in Italy and abroad (Nobes and Parker, 1991, p. 8-10); (3) Discriminatory

policies by Italians in both work and education resulted in a very limited number of local accountants who could maintain or spread the Italian accounting system; (4) accounting education in Libya was never subjected to Italian influences through either student education or curriculum; (5) the Italian tax laws were not detailed enough to determine accounting standards and methods; and (6) economic growth post war was relatively large and therefore, most economic entities were created under British and American influences. This seems to be consistent with Scott's (1970, p. 93) findings that "British accounting influence has followed British interests in Africa, the Middle East, and in many parts of South-east Asia. British accounting certainly had more influence throughout the world, prior to World War II than did the accounting of any other nation".

Chapter seven- Libyan enterprises and the role of accounting in Libya

7.1- Introduction

This chapter concentrates on the question of the extent to which accounting in Libya measures and communicates economic information to allow users to take rational decisions and enhance social welfare, and whether there is a need for action (to develop, modify etc.) to be taken or not.

In order to achieve the chapter's aim, there is a need to have more insight into the context in which accounting operates in Libya. Thus, the chapter starts with a brief discussion on the types and characteristics of enterprises in which the accounting system operates.

7.2- Enterprises in Libya

Large or small, private and public enterprises in any country are the main instruments by which economic activities are conducted. In Libya, according to Bait-EL-Mal et al (1973), various types of business organisation have existed. These include individual enterprise, general partnership, limited partnership, joint-stock companies, limited companies with shares, and limited liability companies. The Libyan Commercial Code (LCC) requires that all business enterprises operating in Libya be registered in the Commercial Register. According to Ministry of the Economy (1980), in 1980 the number of registered business enterprises was 3,782. In general, enterprises in Libya can be divided into public and private enterprises.

7.2.1- Independent public enterprises

The country's socialist ideology has been interpreted to mean the ownership of all businesses by the public sector. Thus, the Libyan economy has become dominated by a large number of state owned enterprises. This has been pursued in many ways: such as, nationalisation of the previous privately-owned enterprises (including the early nationalisation which incorporated the transfer of some of the foreign-owned enterprises to state ownership, e.g., Gamahery Bank, Oma Bank, Elsayahy Bank , or

to a joint venture in which the state owns 51 percent or more of the share capital as is the case in some oil companies).

In Libya, the dominance of the public sector is also through the establishment of new enterprises financed by the state or state companies' investment or joint ventures in which the state owns 51 percent or more of the share capital (ec., the Libyan Tractors Company which is a joint venture between Libya and the UK; the Libyan Truck Company which is a joint venture between Libya and Italy). These companies are fully controlled by the government. According to the United Nations Institute for Training and Research (1987, p. 43) "new construction on the basis of state investment is, at present, the basic method for expanding the state sector in all the developing countries of Africa". These public enterprises in Libya cover all the different economic activities such as manufacturing, finance, services and construction. There are more than 350 public enterprises in Libya, including the various business activities (e.g., Libyan Airways, Commercial Banks, Tobacco company, Industrial Development Company, but excluding oil companies).

Every public enterprise has to be established by a resolution from the GP Congress. The resolution usually specify the company's name, location, capital, shares and objectives. The resolution also determines the beginning and end of the financial year and it assigns to the board of directors the responsibility to prepare the balance sheet, and profit and losses account which should be audited by the Libyan Institute of Public Control. In general, each enterprise is supervised directly or indirectly by the respective secretariat (Ministry) depending on the field of its activities. For example, industrial enterprises are under the control of the Industrial Secretary, Commercial Banks are under the control of Treasury Secretary, Oil companies are under the Secretary of Energy and so on.

Public enterprises are distinguished from other government enterprises in that each is a legally constituted independent body, and considered as a limited company with all of their share capital owned by the state (Kilani, 1988). They are essentially

established on and run according to the Libyan Commercial Code of 1953 (LCC) and the Companies Act of 1970.

Although the GP Congress (1981) stipulated that the main objectives of these enterprises is to offer services and goods to the public rather than to make a profit, in reality an acceptable level of profit is encouraged by the state⁹.

7.2.1.1- Sources of public sector companies

Public sector companies in Libya are financed in different ways, according to their activities, nature and objectives. However, in general, most public sector companies have received their launching grant from the government, directly in the case of newly established companies, or indirectly by a nationalisation process for previously private companies. Thereafter, generally most companies are expected to generate their own income and operate profitably. They are also allowed to obtain loans from other government institutes. In some cases, companies, according to their unique conditions, may receive annual grants for operating and development expenditure.

A company making profits is expected to pay 20 per cent in taxes to the Treasury. The remaining 80 per cent is retained earnings. From this, 30 per cent goes to the central reserve, 30 per cent as a return on investment and 40 per cent is to be distributed to the company and its workers. Of the 40 per cent, one quarter or some 10 per cent is expected to go as bonus to workers and the balance for company social services (UN, 1994). The company's Board of Directors or BPC may however choose to defer these profits to subsequent years as a reserve against future losses (ibid.) It is important to note that employee participation in the profit distribution provides another incentive for them to be interested in the enterprises' accounting reports.

⁹ Interviews with officials in the Ministry of Economic and Planning and Ministry of Industry.

7.2.1.2- Management of public sector companies

Although some differences in the objectives of enterprises and their relationships to the state do exist, the way in which these enterprises are administrated is likely to be similar, regardless of their respective secretariat. Thus, in order to shed some light on the mechanism by which these enterprises are administered and their relation to the state, some emphasis will be paid to industrial enterprises as an example.

As a result of the state socialist ideology since the late 1970s by which workers were given the right to establish self-management in their enterprises, most companies in Libya are managed by a People's Committee (PC). There are exceptions for some companies which have special status in the country such as banks and some oil companies. These companies are managed by a Board of Directors (BD) or an Administration Committee (AC). In these companies it is the responsibility of the GP Congress to issue all the financial and administrative regulations, and penalties. This should be based on recommendations from the respective secretariat.

The People Committee's members of each company were previously chosen from the BP Congress in the company and one of these members should then be chosen as General Secretariat of the Committee (General Manager) by the company's respective Secretariat (Ministry). The general manager is accountable to both the BPC and to the respective Secretariat of the General People's Committee (SGPC). According to Law No. 13 of 1981 and the 1980 resolution of the GPC, one of the SGPC responsibilities is to examine all the Libyan Public Enterprises' periodic reports related to their operations and evaluate their success in reaching their targets. The PCs of the Libyan enterprises are required to follow all orders and guidelines provided by their respective secretariats. They must also provide their respective secretariats with all reports and information as required, and be directly responsible for carrying out and achieving all the enterprises' objectives. For instance, the Secretariat for Industry (Ministry) is responsible for supervising the industrial companies, which in turn should meet the Industry Secretariat's orders. The major objectives of the Secretariat is to distribute the financial resources to the companies

and factories in accordance with the yearly budget and to monitor factory performance (Lind, 1990, p. 413).

The board of directors (or P Committee) for each company is responsible for managing the company, running its operation, setting its general policies, and setting up the administrative and financial systems (including accounting systems) necessary for operations and control. However, Government intervention is common in Libyan companies. The control of prices is exercised at national levels in Libya for most goods and services. For example, in industrial companies, prices of all available (imported or locally produced) products in the local market are fixed by the Secretariat of Planning and Economic, apparently on a cost plus basis, and in theory, most product prices fully cover costs. Companies only make recommendations on price. However, they are set by government with a view to social acceptability (UN, 1994).

As in many other developing countries, most of the public sector companies in Libya are faced with problems ranging from finance and structure to administration. For example, a significant number of these companies have made losses for more than two or three years (Naur, 1981). Responsibility within and between the companies and government is often not clear. In many cases there is no flow chart of the company structure, and if there is one, it does not reflect reality.

Most public companies suffer from a lack of qualified and experienced personnel, thus their quality of management is inadequate. Personal relations and family ties often affect management decisions. As a result, the majority of companies are poorly managed. These problems, combined with inadequate reporting between companies and government, often result in the inability of the government to exercise adequate control, leading many companies to be inefficient and subject to corruption.

7.2.2- Private enterprises

Libyan government policies since the late 1970s discouraged private sector investment and activities. The government controls both production and services.

Economic policy changes are being introduced to Libya. On 5/9/1992 Act number (9) was issued indicating that the Libyan economy would be based on joint ownership, popular socialism and individual initiatives and abilities (African Development Report, 1994, p.113). The Act's objectives were to regulate and enhance the role of private sector activities in the national economy in order to liberalise the economy and provide autonomy to public enterprises (Ibid). According to Article (2) in Act number (9), the implementation of these private activities could be undertaken through various forms, such as joint stock companies; corporations and public companies; and family and individual activities. Based on a recommendation of the GPC, Article (9) stated that public or joint enterprises could be sold in to private ownership in accordance with Article (2).

The government views the privatisation process as a means of achieving equality of resource distribution, and, in order to avoid exploitation by government or individuals, Article (5) of the 1992 Act determines the ceilings for the number of shares individuals can own in a company. For instance, in companies with less than LD 0.5 million capital stock, this should not exceed 12 per cent of the total shares. In joint stock companies with more than LD 0.5 million and less than LD 1.0 million, this should not exceed 10 per cent of the total shares. In joint companies with capital stock of LD 1.0 million and less than LD 2.0 million, it should not exceed 8 per cent. Finally, in companies with capital stock of more than LD 2.0 million, the holding should not exceed 5 per cent of the total shares.

Despite the 1992 Act the private sector in Libya is still in its infancy. At the time of this research, there are only a few private companies which have started to operate in Libya. These companies consist mostly in family businesses, or owned by private individuals. Government has an indirect influence on these companies which have to operate in harmony with government policy. However, it is the public companies which contribute to most of the economy and are the major employers, for they are generally much bigger economic entities than those in the private sector.

Generally speaking, the above discussion indicates that most larger, manufacturing, finance and construction companies are owned by the government. Thus, it is the public sector companies which provide the revenues to government. The need for extensive accounting information to control and evaluate these companies by government is highly apparent.

It is important to mention that accounting cannot solve all the problems in Libya. However, accounting may be able to play a role in the development of the Libyan economy. This statement may be justified by the general agreement in the literature that accounting can contribute to the economic development of a country (see for example Mahon, 1965; Seiler, 1966; Enthoven, 1965, 1970, 1981; American Accounting Association, 1976; Samuels and Piper, 1985; Belkaoui, 1974; Scott, 1970; Qureshi, 1975; see also chapter three). Seiler (1966) argues that "...the strength and extent of a nation's information system determines in large part the rate at which economic development will progress, and that accounting systems thus assume an important role in the development of emerging nations". This is reinforced by the American Accounting Association's study (1976), which claims that accounting plays a recognisable and vital role in economically advanced countries. The conclusion is that accounting is a necessary prerequisite, but not a sufficient condition for economic development in Libya.

7.3.1-Accounting Information in Libya and the Established Criteria for its Efficiency.

Before investigating the efficiency of accounting information in Libya, it is important to notice that because of the scale of the issue and the time limitation of the study, it is beyond the scope of this research to investigate empirically the role of accounting in the Libyan socio-economic development process. However, an insight into the role of accounting in the Libyan economic development process will inform the central research questions. Therefore, this section includes some indirect measures which provide an indication from which it is possible to gain some insight into the nature of the role of accounting in the Libyan economic development processes.

According to Smith (1970, p.110), accounting has traditionally concerned itself with information, but without communication, information is useless. Communication performs an integration-type function. The annual corporate report is considered the primary communication vehicle of business enterprises (ASSC, 1975, p. 16; Isaac, 1992, p. 57). The American Accounting Association's study (1966, p. 120) indicated that:

“Accounting information must be useful to people acting in various capacities both inside and outside the entity concerned. It must be useful in the formulation of objectives, the making of decisions, or the direction and control of resources to accomplish objectives. The utility of information lies in its ability to reduce uncertainty about the actual state of affairs of concern to users. The committee feels that adherence to the standards for accounting information, as proposed (relevance, verifiability, freedom from bias and quantifiability) will result in a marked reduction of this uncertainty”.

The above statement is also confirmed by FASB (1978) in Concepts No. 1, part 7 “Objectives of Financial Reporting by Business Enterprises”. The statement points out that financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions. It provides broadly based guidelines, spelling out the objectives of financial reporting, which concentrate mainly on providing information that is useful to different users (paragraphs 34,37,40,42,43,49,52). In Concept No. 2, the FASB also points to the Qualitative Characteristics of Accounting Information such as understandability, relevance, reliability, and comparability.

According to Belkaoui (1981, p. 92) the FASB's statements established criteria by which financial accounting and reporting policies and procedures could be judged. It might be argued that the qualities of reliability and verifiability are necessary determinants of the usefulness of accounting information and the complete absence of any of them renders the information useless. Practically, however, it might be necessary to sacrifice some of one quality for gain in another (McCullers and Schroeder, 1978). The low quality of information may well be a factor in the low utilisation of accounting information in the decision-making process. Improving the

quality of information should improve its role. It is recognised that many other factors may impact upon the utilisation of accounting information. Therefore, in this study, the quality of accounting information provided by Libyan enterprises such as comparability, timeliness, understandability and relevance has been investigated.

7.3.1.1- Comparability

“Information in isolation is often of only limited meaning....Because of this, it is desirable that users should be able to compare an entity’s performance and position both at different times and between similar organisations in order to establish trends” (Watts, 1996, p. 162). As discussed earlier, in Libya, traditional reporting methods have been passed down to the Libyan accounting body by colonial masters.

In general, the present legal and regulatory framework (concentrated mainly in Laws) for enterprise accounting in Libya is limited in scope and is expressed in loose and general terms. According to the law, every company that is incorporated in Libya is subject to the requirements of the LCC of 1953, Tax laws of 1968, and 1973, and the Companies Act of 1970. Part of these requirements deal with limited accounting matters. For example, all companies are required by these laws to prepare an annual report, including a profit and loss account and balance sheet. There are no further requirements concerning the form and content of the financial statements beyond that companies should maintain proper accounting records in accordance with the laws. None of these laws mention what accounting principles should be adopted. Thus this requirement is expected to be easily fulfilled with high levels of diversity among companies and as a consequence verifying and making comparisons between companies financial reports in Libya is difficult to achieve and is limited in its usefulness.

In order to assess empirically the extent to which accounting information provided by the different Libyan companies is comparable, the researcher investigated consistency in accounting practices between companies through different means:

(1) Public accountants in the selected sample were provided with a list that included different aspects about financial reports and were asked to indicate on the basis of their experience in either auditing or preparing financial reports for companies, the extent to which they thought that the financial reports of companies running similar activities, were consistent with the listed aspects (utilising a standard Likert scale with (1) 'very low' to (5) 'very high').

As presented in Table (14) there is a general agreement between public accountants about a relatively low level of consistency between companies in Libya. For instance, the consistency in the "form and presentation of the financial reports" is of relatively low ranking (2.3). "Information disclosed" in accounting reports is also shown to be inconsistently ranked (2.1). There is also a relatively low consistency shown for "accounting standards and principles" adopted by Libyan companies and ranking (3.1). There is relatively low inconsistency between companies in the "accounting methods" (3.2) the slightly higher score could be attributed to the influence of the law as it specifies some of the accounting methods.

Table No (14) Auditors' views about similarity and consistency between companies in different accounting issues

		M
a	Form and presentation of the financial reports	2.3
b	Information disclosed	2.1
c	Accounting standard and principles	3.1
d	Accounting methods	3.2

(2) Accountants in selected companies were provided with a list including a range of accounting reports (the list was made according to the accounting literature and the researcher's experience of the types of accounting reports prepared in Libya) and were asked to select the one that was most frequently prepared by their companies.

Clearly, differences exist between companies in the type of accounting reports that they prepare. Table 15 shows that 26 per cent of companies prepare Income

statements and 74 per cent of companies prepare Profit and Loss accounts. Also, 72 per cent of companies prepare a horizontal balance sheet whilst 28 per cent prepare a vertical balance sheet. The difference in the kinds of accounting reports may be attributed to the difference in the external influences as some companies have a UK accounting influence and other companies have a US accounting influence. Only 12 companies prepare a statement of changes in financial position and 11 companies prepare Cash Flow Statements. This indicates inconsistency in the kind of financial reports prepared by Libyan companies which consequently limits comparability between companies. At one level, these distinctions may be terminology but the differences do reflect alternative approaches to account formats.

Table No (15) Type of accounting reports prepared by companies in Libya

		Yes	
		F	%
a	Income Statement	13	26
b	Profit and loss accounts	37	74
c	Horizontal Balance Sheet	14	72
d	Vertical Balance Sheet	36	28
e	Statement of changes in financial position	12	24
f	Cash Flow statement	11	22
g	Value-added report	0	0
h	others	0	0

(3) Consistency was also investigated when company's accountants in the selected sample were provided with a list of different aspects of accounting practices and methods and were asked to select the methods that had been most frequently used by their companies such as:

i) Criteria used for distinguishing between capital expenses and revenue expenses. As Table (16) below shows, 41 companies answered this question; seventeen companies (41%) use the "production life of the expense" as criterion for distinguishing between

capital expenses and revenue expenses; and 31% of the companies use “the amount of expense”. Whereas, using both criteria was selected by 28% of the companies.

Table No (16) The most frequently used criterion in distinguishing between capital expenses and revenue expenses.

		F	%
a	Production life of the expense	17	41
b	The amount of expense	13	31
c	Both a and b	11	28
d	Others	0	0
T		41	100

ii) Treatment of the Costs of Research and Development. Only 18 companies out of the selected sample incurred these costs. As shown in Table (17), 12 of these companies (67%) treat these costs as expenses for the current year, whereas six companies capitalise these expenses.

Table No (17) Methods used by companies in treatment of R & D Costs

		F	%
a	Capitalise the cost	6	33
b	Expense the cost	12	67
	other treatment	0	0
Total		18	100

iii) Reporting Extra-ordinary and Exceptional Items in the financial statements. Table (18) shows 36 companies answered this question. 22 companies (61%) do not distinguish extraordinary items from ordinary items nor disclose information about them. Eight companies (22%) mix the extra-ordinary items with the ordinary items, but a note is made in this regard in the financial statements. Only six companies (17%) are found to present extra-ordinary in separate sections within their financial statements.

Table No (18) Methods of reporting about Extra-ordinary and Exceptional Items in the financial statement

		F	%
a	Include within the company's operating revenue and expenses without any note to the accounts	22	61
b	Include within the company's operating revenue and expenses and make a note to the accounts	8	22
c	Disclosed in a separate section within the company's financial reports	6	17
d	Others	0	0
T		36	100

iii) The classification of "accumulated depreciation" of fixed assets. Table (19) shows that 24 (48%) companies report accumulated depreciation of fixed assets in the liabilities section, whereas, 26 companies (52%) report it in the assets section deducted from the historical value of the fixed assets.

Table No (19) Classification of accumulated depreciation

		F	%
a	Reported in the Assets section deducted from Fixed assets	26	52
b	Reported in the Liabilities section	24	48
c	Others	0	0
T		50	100

vi) The classification of the provision of doubtful debts. Table (20) shows 45 companies answered this question. 14 companies (13%) classified it on the liability side, whereas 31 (87%) presented it under the assets section deducted from short term debts.

Table No (20) Classification of the provision for doubtful debts

		F	%
a	Reported in the Assets section deducted from current debts	31	87
b	Reported in the liabilities section	14	13
c	Others	0	0
T		45	100

The above findings provide further evidence to reinforce the suggestion that inconsistency between companies in accounting methods and reports is high. This confirms the findings of both Bait-El-Mal et al, (1990) and Kilani (1988), who revealed a high level of inconsistency between the financial reports of Libyan companies.

A comparison of an entity's performance and financial position at different times is also perceived as an essential part of comparability. The researcher investigated whether companies in Libya would disclose information about a previous year compared with the current year. Disclosing such information certainly helps the reader to have some insight into the company's performance over time.

As presented in Table (21), only a very small number of six companies (12%) provide this information. Therefore, comparability between companies' financial reports through time, perceived by many scholars such as Enthoven (1980, p. 76), as an important instrument in controlling and evaluating the performance of companies, is extremely difficult in the case of Libya.

Table No (21) Disclosure of comparative information from previous years in their current financial statements

	Yes		No	
	F	%	F	%
Does your company provide an comparative information from previous years in their current financial statements	6	12	44	88

The above findings suggest that accounting reports are of very limited value, particularly with regard to their role in economic decision-making. This conclusion was reinforced by representatives from the Secretaries of Industrial, and Economics and Planning, and the General Statistics Office, who perceived the usefulness of accounting information provided by the current financial reports of Libyan companies as low. They were then asked in an interview about the reason(s) they think lie behind it. There was a general agreement that inconsistency and diversity

between companies in accounting systems and practices were among the main reasons.

For example, one of the difficulties highlighted by the executive manager in the Libyan Central Statistic Office was that:

“Data collected from different sources and by different methods did not correlate and were inconsistent. Therefore, comprehensive sectoral accounts under these circumstances are very difficult and unreliable.”

The same views were provided by the senior officers in the Secretariats of Economics and Planning, and Industry. The former pointed out that:

“Diversity between accounting practices, principles, and reporting procedures in all companies in Libya hinder them from making use of this information in planning, controlling and making rational decisions.”

The other official in the Secretary of Industry also emphasised the point that:

“Comparability between companies' financial statements is very important for the Secretary to evaluate and control a company's activities, but it is difficult because of the diversity between companies' accounting systems.”

7.3.1.2- Timeliness

Presenting the accounting information on time is expected to be positively associated with the usefulness of accounting information. This criterion of timeliness suggests that the usefulness of accounting information is reduced the longer the time period between an event occurring and its being reported (Arnold et al 1994, p. 73). The probability that it will be used or at least considered by users in their decisions is expected to be highly influenced by timing. Thus, Arnold et al (1994, p. 73) stress that the information must be available to decision makers before it loses its capacity to influence decisions.

Timeliness was used in the research as another criteria of judging the standards of accounting information in Libya. Company's managers were asked about the length

of time between the end of their companies' financial period and the actual time when they presented their companies' financial reports.

Table No (22) Time delay of publishing the financial reports

		F	%
a	Within the first month	7	14
b	After three months	17	34
c	After six months	7	14
d	After one year	11	22
e	More than Two years	8	16
Total		50	100

As indicated in Table (22), most companies were found to have considerable delay in publishing their financial reports. Only seven companies (14%) were found to publish their accounting reports within the first month. 17 companies (34%) published their reports after three months. Seven companies (14%) published their reports after six months. The findings show that eleven companies (22%) published their accounting reports after one year and eight companies (16) published their annual accounting reports after two years. This was despite actions taken by Libyan IPC and the GP Congress to encourage companies in Libya to publish their financial reports in time. The delay in producing the financial reports is expected to reduce the reliability of such information and further reduce its role in the decision-making process. This is reinforced by most of the participants in the interviews as they agreed that the companies financial reports of most of Libyan companies are often delayed considerably and, as a result, the usefulness of the information provided in these reports is limited.¹⁰

7.3.1.3- Reliability

According to Belkaoui (1992, p.201), reliability refers to the "quality which permits users of data to depend on it with confidence as representative of what it proposes to

¹⁰ Interviewes with Officers from ministries of Economics and planning, Industry, and Treasury.

present". The UK Accounting Standards Board (1994) perceives reliable information as that which is free from material error or bias. Accounting reports should publish figures that provide a real picture of the companies' economic and financial position. According to Arnold et al, (1994, p. 73), users might, therefore, have more confidence in the reliability of accounting information if they can verify the process by which the organisation recorded the relevant events. Failure to do so is expected to negatively influence the quality and reliability of accounting information and as a consequence its role in the decision-making process.

The issue of reliability is investigated through two key elements. The first is focused on economic reliability, in that high inflation brings into question many values recorded at historic cost. The second is the disclosure processes that allow the users to verify the process by which events are recorded. As the rate of inflation in Libya is very high, the researcher investigated the methods that companies have used to adjust financial reports to reflect the "real" picture of their financial position.

Table (23) shows that most Libyan companies have not adjusted the financial reports to reflect the real picture of their financial position. Only 28 per cent of the companies in the selected sample disclosed information about the current value of a company's assets and the income generated. No other methods were found to be used by these companies.

Table No (23) Methods used by companies to adjust their financial reports for the impact of inflation

		Yes		No	
		F	%	F	%
a	Prepare another financial statement on the basis of current cost or other relevant method.	0	0	50	100
c	Disclosed additional information about the current value of companies assets and income generated in the historical cost financial statements	14	28	36	72
d	Others please specify	0	0	0	0

Secondly, the study investigated whether companies disclosed enough information about their methods for treating accounting events such as:

- a) disclosure about the valuation method for inventory;
- b) disclosure about the valuation method for short term investments;
- c) disclosure about other methods not implemented in (a) and (b); and
- d) disclosure of the depreciation methods that have been used by their companies.

Disclosure of such information is expected to help users to verify the process by which the organisation recorded the relevant events (Arnold et al 1994, p. 73). Thus, the absence of a disclosure of such information could reduce the reliability of information provided by a company's accounting reports.

As indicated in Table (24), 74 per cent of the selected sample did not make any disclosure about the methods used in valuing inventory. 72 per cent did not make any disclosure about the methods used in short term investment valuation. Furthermore, 84 per cent of the selected companies did not make any disclosure about the methods which were not used in (a) and (b) but may have been sensible alternatives. Also, the findings show approximately 54 per cent did not make any disclosure about depreciation methods used by the companies.

Table No (24) Companies' disclosure about accounting methods

		Yes		No	
		F	%	F	%
a	Disclosure about the adopted method for inventory valuation	13	26	37	74
b	Disclosure about the adopted method for short term investment valuation	14	28	36	72
c	Disclosure about other methods which are not used in a and b.	8	16	42	84
d	Disclosure about methods used for Fixed Assets depreciation	23	46	27	54

It is important to refer here to the interviews with an executive manager in the Institute of Public Control (IPC), and a senior officer in the Secretary of Treasury who pointed to the lack of reliability of information as one of the main reasons for

the limited usefulness of the current accounting information. The former views the information provided by companies financial reports as:

“Unreliable, simply because it is not based on a sound set of fundamentals, and there is little disclosure by which the basis of its recording methods can be verified.”

Whereas, the latter argues that:

“The lack of regulation and legislation in accounting led the current accounting system in Libya to be diversified, unverifiable and less reliable.”

In general, it is possible to suggest that most Libyan companies have not reported enough information by which the reliability of their accounting reports can be increased, and as a consequence its role in the decision-making process is limited.

7.3.1.4- Understandability

Whether or not users can understand financial statements depends partly on their abilities and partly on the way the information is presented (Watts, 1996, p.162). Presenting the financial reports in a simple manner using understandable terminology will help the users to read and understand the financial reports, and so improve its role in their decisions. Watts (1996, p.163), states that “if the financial statements cannot be understood by anyone then they would not be relevant”. Thus, investigating the understandability of the financial reports can be another criterion by which we can investigate the quality of financial reports in Libya. Discussions with a selection of users of financial reports who are experts in their field¹¹ focused on how they perceive the readability and understandability of accounting reports by the general users. These interviews indicated that only those who have studied accounting can fully understand the accounting reports and terminology. Whilst users who did not study accounting could not completely understand accounting reports, there is general agreement that accounting reports should be presented in a simpler manner.

¹¹ Interviewes with officers from ministries of Economic and planning, Industrial, Treasury, and Central Statistic Office.

Part of the explanation for the difficulty of understanding the accounting reports in Libya can be related to the fact that accounting terminology is largely a direct translation of western accounting terminology, without any attempt to achieve understandability. In addition, the current Libyan accounting system is imported and geared to serve the needs of financial information users in advanced nations who are quite often far more advanced in accounting matters than their Libyan counterparts.

7.3.1.5- *Relevance*

Relevant information is information which influences the economic decisions of users (UK ASB, 1994). The relevance and role of enterprise accounting in the Libyan economic process is investigated empirically in a range of other aspects such as;

1) The main users of accounting reports.

Cyert and Ijiri (1974, p. 32) believe that one of the fundamental objectives of corporate reports is to communicate information for the discharge of accountability of an entity to parties to whom the entity is accountable. Under both the Libyan socialist ideology and Islamic values, companies and their managers in Libya should be accountable to all the stakeholders who have a legitimate interest in these companies. Accordingly, potential users of company reports in Libya are not restricted to owners and the tax authority, but would expand to encompass other interested parties such as the community, BPC, government agencies, GPC, employees, suppliers, and consumers. In developing countries, users such as the government and government agencies, should be given greater attention than is possible within international standards on corporate reporting (see Wallace, 1993).

If accounting is to have a role in a country's development process, various key groups must receive accounting reports. The research therefore investigated the number of those users who receive companies' financial reports. One set of questions asked the managers of Libyan enterprises to identify the users who receive their financial statements from a predetermined list. The list was prepared according to the

concept of a wider set of users suggested by researchers in the accounting literature, such as Porter (1989); Gray et al (1987); and Samuels (1990).

Table No (25) Users who receive the company financial statements

		F	%
a	Owners (Secretariat, SGPC)	50	100
b	Other government agencies	12	24
c	Local community (BPC)	5	10
d	Tax authority	50	100
e	Institute of Public Control	50	100
f	Investors	9	18
g	Employees (Union)	2	4
h	Society at large (publishing accounting reports in newspapers)	3	6
i	Customers	0	0
j	Suppliers	0	0
k	General Statistical Office	13	26
l	Creditors such as banks	19	38

As presented in Table (25), users who receive companies' financial reports are limited in number, and only a very small proportion of the potential users of accounting reports in Libya receive them. It is confined mainly to the owners (SGPC), Institution of Public Control and Tax authority which can be easily attributed mainly to the tax purposes and for compliance with the law. Other users such as the General Statistics Office, employees, investors, creditors, suppliers, consumers, Basic People Congress, other government agencies and society in general, do not receive company accounting reports. This again suggests that the role of information provided within these companies financial reports is limited.

2) Changes made to the accounting system to reflect the unique needs of the main users of financial reports in Libya. In several developing countries, the public sector is larger than the private sector and relies on different information for economic decisions than that provided by the accounting standards for the private sector. As a result, developing countries may have to supplement accounting standards for the

private sector by assessing their information needs in the government and national accounting sectors and set corresponding accounting standards (Belkoui, 1985, p. 335).

As mentioned in chapter three, Libya is a centralised economy and, in the absence of an efficient market, decision makers need to rely heavily on accounting reports for their decisions with regard to: resource allocation, controlling, performance evaluation and pricing, rather than on the mechanism of the market. Briston (1978, p.109) makes the point that:

“The major criticism of the evolution of accountancy in Nigeria and other countries which have adopted the colonial system almost entirely is that due to mixture of habit, inertia, and vested interests; these countries have adopted accounting principles and systems of accountancy training which originally evolved to meet the needs of UK capitalism a century ago. These principles and systems have already been shown to be of dubious relevance for the present-day UK economy, and they are, therefore, most unlikely to be appropriate for the entirely different social and economic environments of the developing world.”

However, an investigation was carried out on the extent to which accounting systems in Libyan companies, particularly nationalised companies previously owned by foreigners, had been modified or changed. This was to give an indication of the extent to which accounting in Libyan companies has taken into consideration the unique needs of their new users. The research reveals that although 62 per cent of these companies believe that they had made important changes, further investigation into the extent of these changes on different accounting practices indicated that very limited changes have been made (see Tables 5 and 6). In Libyan companies, the emphasis is still on financial accounting related to external reports, and there is very little concern on public sector accounting, and management accounting. Also, a discussion with an official in LAAA who had been working as a public accountant before the establishment of LAAA, reveals that there is no real difference in the accounting standards and auditing to be brought about following the establishment of the LAAA. He also says there is no real difference to be seen between a company's accounting systems before and after nationalisation. This indicates that the

accounting system adopted in Libya through laws and the practice of professional accountants, are essentially run according to private enterprise accounting norms, even though the prevailing feature of Libyan companies is public ownership.

3) Information needed in Libya

The main users of financial reports in Libya should have expanded to include many groups. Information disclosed in these financial reports should also be oriented to serve the needs of those users. Fantl (1971) points out that "one of the chief and least recognised misconceptions which occurs in international accounting is the assumption that accounting objectives are uniform". This is because each country has its own unique social, economic and political environment which should play a vital role in moulding its accounting system and, hence its corporate reporting and disclosure practices (Arpan and Radebaugh, 1985). Belkauoi (1985, p. 335) reported that:

"the needs of users in the developing countries are not essentially restricted to financial costs and returns. These needs are more complex the economic decisions in a developing country should be based on a knowledge of shadow prices and costs. That includes more information than those provided by accounts conforming to international standards".

Hove (1986) also points out areas that are of special interest to developing countries, including the effects of the activities of enterprises, particularly of transitional corporations, on environmental protection (e.g., water and air pollution), employment generation, and the effects of some of the products of the transitional corporations on the well-being of society. He suggested that value-added reports may contain information more useful to developing countries' governments than the current information being published. Briston (1984, p. 15) states that conventional financial statements do not fulfil many of the information and control requirements of the host government; that their shortcomings are so fundamental, and that the needs of the host governments are so much more extensive than those of other users.

Investigating the availability of information that is in line with the needs of a centralised developing country such as Libya within the financial reports of its companies, is a fundamental issue in assessing the role of accounting reports in Libya. Accounting information which is not restricted to purely monetary information but which provides wider disclosure on social accounting, is part of the essential information needed in developing countries. This information also includes information that is essential to prepare input-output tables.

Therefore, accountants in the selected companies for this study were provided with a list which included some of the above information (financial and non-financial) which may be disclosed in their companies' financial reports and are of great interest to the main users in Libya, and were asked to indicate the extent to which their companies disclose information about them. It is important to note that this list was prepared from the accounting literature as recommended by the Accounting Standards Steering Committee in their publication "The Corporate Report", (1975); Samuels, (1990); Wallace, (1993); and Hove, (1986). The findings in Table (26) indicate that the level of disclosure about most of the listed items is very low. There is relatively moderate disclosure about only two items "employment by type of labour; wages and salaries" with an average score of 2.1 and "company's productive capacity, planned and actual out-put" with an average score of 1.8. However, in general, the findings in this table suggest that financial reports do very little to provide information that has been seen by various researchers as essential for the socio-economic development process in a country and the structure of social accounts.

Table No (26) Companies' disclosure of information about different aspects

		M
a	Employment by type of labour; wages and salaries	2.1
b	Information on recruitment and training	1.2
c	Company's participation in improving the welfare of employees, community and society in general	1.1
d	Proportion of raw material and components used in production which have been imported	1.1
e	Statement of funds flow with the government	1.6
f	Company's payment of employees' compensation in kind	1.2
g	Company's productive capacity, planned and actual out-put in physical and monetary terms	1.8
h	Adapted value added statement	1
i	Information related to the standards of product quality	1.3
j	Information related to environmental pollution	1.2
k	Information related to energy usage	1.2
l	Information related to foreign currency flows, receipts or expenditures generated, by the company	1.5
m	Information related to the proportion of market share met by the company	1.6
n	Information related to company's ability to continue in business	1.5
o	Information about jobs created by the company	1.3
p	Information related to natural resources conservation	1
q	Information related to industrial trends	1
r	Information related to regional distribution of assets	1.4
s	Information related to regional flow of funds	1.3

Scrutiny of the type of accounting reports that are prepared by Libyan companies shows they are restricted to financial reports. As presented in Table (15), all companies prepare an Income statement or Profit and Loss accounts, and Balance sheet which can be mainly attributed to the requirements of Libyan law. In contrast, other accounting reports which are shown to be of great interest to users in developing countries, including Libya, are rarely prepared by Libyan companies. As presented in Table (15), there are only eleven companies that prepare a Cash Flow statement, and 12 that prepare the statement of Changes in Financial Position. A Value-added report is not prepared by any company.

The focus of the current Libyan accounting system on mainly financial accounting has made the output information miss the basic information required in a centralised economy such as Libya. Confirming evidence came from some users who were asked during interviews about the kind of accounting information they would like to obtain from companies' financial reports, and if it were available to them in the current financial reports of Libyan companies.

For example, the senior officer in the Secretary of Industry wants:

“Information to help measure the efficiency and effectiveness of a company's management in using the company's resources, and its efficiency in controlling the operation of the company”.

He adds that:

“As the secretary has the responsibility of increasing the country's local product, the secretary needs information by which this responsibility can be discharged to the government and the general public”.

The senior officer also argues that:

“Many company managers in Libya do not seem to have enough awareness of the importance of accounting information provided by their companies for the macro level, as this information is ignored in the financial reports. Thus, to obtain the necessary information, companies are often called to provide specific reports, and this is not without its problems.”

Another senior officer in the Secretary of Economics and Planning, points out that:

“The secretary wants information which helps to show the extent to which companies are allocating their resources efficiently. Also, the secretary needs information by which the responsibility of public companies in meeting their economic and social objectives can be seen to be discharged. This is in addition to information which enables the secretary to control and monitor social and economic development plans at the macro level.”

With regard to the extent to which this information is available in the present financial statements of public companies in Libya, he asserts:

“Information of interest to the macro level is missing in most of the present financial reports as they are mainly oriented towards companies' achievements in terms of finance”.

An interviewee in the Institute of Public Control (IPC), also identifies the information required as that:

“By which the companies' effectiveness in using the government resources can be evaluated and information by which they can ensure that companies' managers do not abuse their power or behave irresponsibly. This is in addition to information about the companies' achievements in their social and economic objectives.”

He adds that:

“The availability of this information in the current financial reports is limited and unreliable.”

Generally speaking, the views provided by the above users (as some of the main users of financial reports in Libya), suggests that the current companies' financial reports are mainly concerned with financial accounting, focus on form rather than substance and have very limited concern about the main user needs in Libya. Thus, the relevance of the current companies' financial reports to the users' interests in Libya is highly questionable. The above findings seem to be in line with Kilani's (1988, p. 461) findings that “the calculation of Libyan national accounts has been less than reliable, partly because of the lack of relevant micro accounting information and partly because of the unreliability of such information as was available”.

7.4.1.6- Accounting and internal users

Cost accounting is another important instrument by which valuable information for management and some external users can be produced. Cost information enables internal and external users to base their decisions on facts and figures rather than qualitative data. In a centralised economy such as Libya, cost accounting is particularly useful in providing information which helps both management and

government to regulate public undertakings and set pricing policy; and facilitates comparison between departments within a company or between companies with similar activities.

The focus of the research so far has been on external reporting. However, it was deemed useful to extend the evidence with an investigation of the extent to which accounting in Libyan companies plays a role for the internal users. Therefore, accountants in Libyan companies were provided with a list of management accounting practices and asked to select the methods that had been used by their companies. Preparing such cost accounting methods can be seen as an indication of a management's recognition of the role of accounting for internal users.

Table No (27) Management and cost accounting methods prepared by companies

		No		Yes	
		F	%	F	%
a	Standard costing and Variance Analysis	38	76	12	25
b	Breakdown of total cost to variable and fixed	34	68	16	32
c	Budget preparation	19	38	31	62
d	Target costs	37	74	13	26
e	Economic order quantities for stock control	50	100	0	0
f	break-even point	36	72	14	28
g	Other mathematical and statistical models	0		0	0

As indicated in Table (27), management and cost accounting seem to be largely neglected by managers in most companies. For instance, 38 companies (76%) do not produce standard costs or carry out variance analysis. A breakdown of total cost to variable and fixed costs is needed by many internal users to make different decisions. Surprisingly, these are only made by 16 companies (32%). Methods such as Economic Order Quantity, target costs and break-even point are rarely prepared. The number of companies who prepare a Budget and its analysis are found to be relatively high with 31 companies (62%) compared with other management accounting tools. An explanation could be found in the fact that most companies

need to have the budget approved by the Secretary of Economics and Planning, and other related Secretaries in order to have the right to disburse the funds as budgeted.

The findings as presented in Table (27) reinforce the view that accounting in most Libyan companies does not provide adequate information for both internal and external users. This can lead to the suggestion that the role of accounting information in allowing decision makers to take rational decisions is restricted.

Finally, it is important to mention that although the central authority is found to be one of the main users of accounting reports, the lack of reliability, relevance and delays in receiving a company's accounting reports, reduces the usefulness of the accounting information. To overcome some of these problems the central authority has established another means of communication with companies, by calling for specific reports during the financial year. These reports are in addition to the financial reports and therefore, double the effort, cost and time to comply with requests. As these reports are prepared during the financial year, they are based on an estimation. The usefulness of these reports in the decision making process is highly questionable. For instance, Lind (1990) reported that the flow of information between the Industrial Secretariat and companies in Libya, creates a large amount of data resulting in a congested information flow where it is difficult to distinguish between the important and the less important. Also, the financial statements might comprise the only information that other stakeholders may possess (about companies) as they do not have access to the detailed information concerning an organisation's transactions (Arnold et al 1994, p. 12). The usefulness of these specific reports prepared during the financial period is restricted to a set of users largely associated with government.

7.4- Summary

This chapter indicated that most larger, manufacturing, finance and construction companies are owned by the government. The private sector in Libya is still in its infancy. There are only a few private companies owned by private individuals which

have started to operate in Libya. Thus, it is the public sector companies which provide revenue for the government and which the government mainly rely on in achieving its development targets. Therefore, the need for extensive accounting information to control and evaluate these companies by government is highly apparent.

In this chapter, findings also show that accounting information provided by Libyan enterprises lacks the basic requirements of comparability, timeliness, reliability, understandability and relevance. Evidence of the present unsatisfactory nature of the current accounting system in Libya is also presented by investigating the Libyan officials' opinions on the relevance of the present accounting information to their needs. There was general agreement that the present financial reports for Libyan companies are restricted to purely monetary information and that they miss the basic information which is needed at the macro level to evaluate performance and control the economy, as well as in the construction of national accounting statistics. Samuels (1990, p. 69) says that "where decisions in developing countries are made on rational grounds there are two dangers: one, that the information provided is misleading and the other, that the information is incomplete".

This suggests that accounting in Libya does not measure or communicate economic information to allow users to take rational decisions. As a result, accounting's contribution to the country's economic development process and to enhancing social welfare may be negatively impacted upon.

Although many factors may have contributed to this situation, the absence of a general accounting framework which provides a guideline for accounting development and establishes an effective linkage between micro and macro accounting systems, seems to be highly apparent from this chapter. Thus, establishing legislation and a general framework for the accounting system is apparently needed for accounting to provide a rational basis for the decision-making process in Libya. Accounting cannot, of course, solve all the problems in Libya,

however accounting is a necessary prerequisite, not a sufficient condition, for economic development.

**Chapter Eight- Environmental differences and the
relevance of an Anglo Saxon accounting approach to
Libya.**

8.1- Introduction

“If environmental factors play an important role in the development of accounting concepts and practices, and if these environmental factors differ significantly between countries, then it would be expected that accounting concepts and practices in use in various countries also differ” (Frank ,1979, p. 593).

The accounting literature (e.g., Frank, 1979; Hendriksen, 1982; Bloom and Naciri, 1989) suggests that environmental factors have a direct bearing on the objectives of accounting and on the logical derivation of principles and rules in each country. This is expected to be the case in countries where accounting concepts and practices have evolved and developed as a response to the environment in which they operate. The investigation of the origin of the present accounting system in Libya in chapter six showed the system to be a derivative of an Anglo-Saxon one. This contrasts with the possibility of the system emerging and evolving as a consequence of its environmental interaction. The accounting literature gave rise to the suggestion that the efficiency of the Libyan accounting system is partly associated with the extent of similarity in environmental factors between Libya and those countries which provide the source of the current Libyan accounting system.

Therefore, part of understanding the problems which inhibited the present accounting system from being efficiently workable in Libya, requires an investigation into the differences in environmental factors between Libya and the UK. To achieve this, the first part of this chapter concentrates on the environmental factors suggested in the accounting literature as crucial in shaping a country's accounting systems in general. The chapter then moves on to focus on culture. Using Hofstede's cultural dimensions and Gray's accounting dimensions, first, the relevance of the Anglo-Saxon based self-regulation accounting system to the Libyan culture is questioned; and second, Gray's theory will be tested, in predicting the likely nature of the Libyan accounting system.

It is important to note that the chapter focuses on the UK as an example of an Anglo Saxon approach, because it had the dominant post war influence on Libyan

accounting, through aid and the provision of experts, and through education. The aim of this is to provide an insight into the consistency between the adopted accounting system in Libya and the country's environment.

8.2- Aspects of Environmental Differences

The concept of relevance has been used by many researchers in explaining the failure of western accounting in meeting the environmental needs of developing countries. However, there is no general agreement about what aspects of western accounting are irrelevant to developing countries. According to Baydoun and Willett (1995, p. 68):

“The existing literature is rather vague in its assessment of what aspects of Western accounting systems fail to meet the test of relevance to developing countries' needs. For example is it the case that recording and analysis of costs through the double entry bookkeeping system is at fault or is there some less fundamental defect in the system, such as the need for a change in some of the regulations regarding the specific items to be disclosed in annual financial statements?”

This research is not focused on the technique of recording and analysis through double entry book-keeping but is more to do with the approach to accounting regulation in general, and to some accounting practices in particular, such as the orientation of financial reporting. It is important to mention that it is not the intention of this chapter to make a detailed comparative study between Libya and the UK, but rather to highlight some of the environmental differences which are expected to influence the relevance of any accounting systems.

From the previous chapters, differences between developed countries and developing countries are apparent in most environmental factors. Libya is no exception. Differences between Libya and the UK exist in many significant environmental factors which are believed to have an important impact upon accounting.

8.2.1- Economic and political differences

The stage of a country's economic development, and the type of economic system in both the UK and Libya indicate differences which are obviously great. The UK is classified as one of the advanced developed countries [in terms of their GDP with a very high level of export trade]. The main characteristic of the UK economic system is capitalism-orientation (Hutton, 1995, p. 258), whereas Libya is considered as a developing country which is still engaged in developing its basic infrastructure. It is heavily dependent on imports to meet most of society's needs. In Libya a planned economic system with socialist-orientation is adopted and decision-making is concentrated in the hands of the central planning authority (UN, 1994).

Government intervention in controlling and running economic activities is expected to be correlated with the type of economic system adopted in each country (Arpan and Radebaugh, 1981, p. 23). Thus, government intervention in the UK and Libya is different. In the UK, government intervention is relatively limited in most of the country's activities. The economic system is dominated by private sector enterprises (Nobes and Parker 1991, p. 123).

Mostly in countries with limited government intervention such as the UK, the capital market is well organised and advanced, working as a key source of funds for investment. As a result, the allocation of economic resources in these countries is highly dependent on market forces.

Libya has been engaged for many years in social and economic development plans, with the government playing a major role in the development process. This is in contrast with the UK experience. Many development plans have been set out to build social and financial institutes as well as industrial complexes. Libya has been striving to build a stable climate for progress, to provide the infrastructure, such as power and transportation facilities for the growth of both private and public businesses. The Government also helps schools to remedy the severe drawbacks of an illiterate population.

The Government plays a dominant role in most activities of the economy including a significant role in industrial development through the provision of finance and other resources. The Government is continually intervening in the economy in order to achieve its development and growth aims. Furthermore there is no capital market in Libya. Equity interests are financed mostly by government. Prices are for the most part established, not on the basis of market mechanisms, but by the government. The public sector in Libya dominates the economy, whereas the private sector is very small and the numbers involved are relatively few. Clearly, the government is the only dominant player in all economic decisions in Libya and, therefore, has different reasons for wanting to use financial reports.

Fantl (1971, p. 101) points out that "one of the chief and least recognised misconceptions which occurs in international accounting is the assumption that accounting objectives are uniform". Watts (1996, p. 3) reinforces Fantl's point on the basis that political systems which see a major role for the government in economic affairs will require much greater information about economic activity than a less interventionist political system. Not only will more information be required, but the contents are likely to be different, reflecting the different needs of government and business.

For instance, under a market economy system the requirements of the capital markets are a major influencing factor in accounting reports' disclosure patterns leading accounting in countries like the UK to be more oriented towards meeting the needs of the capital market (Perera, 1989). Hence, published financial statements in the UK and US are regarded as being oriented primarily towards shareholders and potential investors (Cook, 1983, p. 102), and other users, including the government and the general public, become less important (see Briston, 1978 and 1981).

In Libya, accountants cannot ignore the requirements of economic decision making within the public sector, and the private sector must justify its existence; "it must satisfy the government that it is contributing to economic development. The accounting reports required therefore, from both the public and private sectors are

not necessarily those that would just satisfy shareholders and bankers" (Samuels and Oligo 1982, p.80). In a centralised economy (such as Libya), corporation control is exercised at the centre, and accounting reports have to be designed to primarily provide control information to the centre (Bailey, 1973). The UK accounting system has been criticised for not sufficiently concerning itself with the accountability of the public sector (Briston, 1978, 1981, 1990). Samuels also argues that the present conventional system (in capitalist countries) is designed for a situation in which most of the crucial decisions regarding the allocation of resources are made as a result of market forces. This is not always the case in developing countries, (Samuels, 1990, p, 70) including Libya .

So, accounting in Libya could in some ways be viewed as having a more important or co-ordinating role than would be the case in the free market economy. Resource allocation, monitoring social and economic development plans, and the establishment of prices in Libya are all based on existing accounting reports rather than the mechanism of market forces. As a result, the central authority needs information beyond the regular external financial reports, which, by and large, do not meet their needs in terms of building successful economic development plans, exercising control, and taking rational decisions. This was reinforced by a senior manager at the Secretary of Economics and Planning who was interviewed and asked about the kind of information the secretary wants to obtain from public companies. He points out that:

“The secretary wants information which helps to show the extent to which companies are allocating their resources efficiently. Also, the secretary needs information by which the responsibility of public companies in meeting their economic and social objectives can be seen to be discharged. This is in addition to information which enables the secretary to control and monitor social and economic development plans at the macro level.”

With regard to the extent to which this information is available in the present financial statements of public companies in Libya, he asserts that

“Information of interest to the macro level is missing in most of the present financial reports as they are mainly oriented towards companies' achievements in terms of finance.”¹²

8.2.2- The sophistication of accounting systems and the level of education

Another difference between developed and developing countries is the size of enterprises and the sophistication of accounting systems implemented by these enterprises. In a country such as the UK, for example, enterprise activities are dominated by large companies and they implement sophisticated accounting systems (see Glautier & Underdown 1991). The general level of education in the UK is high. Professional accounting education has existed since 1854 and is now regarded as achieving high standards (see Arnold et al, 1994). The role of accounting is well recognised by government and the public. Due to the high level of competition in capitalist countries, managers and accountants are under pressure to be highly trained and well aware of the primary users of their companies' accounting reports (ibid).

In contrast, developing countries such as Libya have relatively small enterprises. Although there has been considerable improvement in education since Libya's independence, the general education level in the country is still relatively low in comparison to developed countries. Mirghani (1982, p. 57) states that “in the majority of developing countries, there is a lack of awareness of the potential significant role that accounting could play in the economic development process”. Accounting education in Libya only started in the 1950s. According to the representative of the LAAA, the status and role of the accounting profession in Libya are not well recognised by the government or the public.

Furthermore, the research identified that the qualifications of most managers in the selected companies were found to be low and in areas which have nothing to do with

¹² Also see interviews with the senior officer in the Ministry of Industry and executive manager in IPC, p. 198, about the type of information required by them.

management or accounting, nor were they subjected to any training courses or programmes to improve their knowledge about accounting and management (see Tables 28 and 29). As a result, their experience and understanding of accounting terms and the role that accounting can play in management are expected to be limited. Industrial Research (1978 quoted from Kaabur, 1995) on management efficiency and productivity in a number of Libyan industrial companies reveals that management lacks education concerning important tools and techniques necessary for the efficient operation of functional areas of their business.

Table No (28) Managers' professional qualification

		F	%
a	Accounting	8	16
b	Management	12	24
c	Others	30	60
T		50	100

Table No (29)) Managers' training programmes in management or accounting

		No		Yes	
		F	%	F	%
	If your qualification is not in management, business administration, or accounting, have you joined any training programme for management or accounting	21	70	9	30

One of the apparent consequences of poor accounting education in Libya is that managers do not have enough awareness about the main users of accounting information and their role. In order to provide useful and relevant accounting information, accountants and managers should have reasonable awareness of the main users of financial reports which will eventually lead them to provide information that is consistent with those users' needs. Investigating the managers' perception of the number of those users who have the right to receive a company's financial reports in this study, revealed that only limited numbers of users such as

owners, tax authority, and investors are perceived by managers to have the right to receive company reports, whereas other users are ignored (see Table, 30).

This lack of awareness by managers can be reinforced by referring to the points which were suggested by senior officer in the Secretary of Industry who was interviewed (see page 198).

Table No (30) Manager's views about users who have the right to receive companies' accounting reports.

		Yes	%
a	Owners (secretary) SGPC	47	94
b	Other government agencies	22	44
c	Local community BPC	13	26
d	Tax authority	32	64
e	Institution of Public Control	22	44
f	Investors	31	62
g	Employees (Union)	12	24
h	Society at large (e.g., publishing accounting reports in newspapers)	5	10
i	Customers	8	16
j	Suppliers	6	12
k	Central Statistical Office	19	38
l	Creditors	31	62
m	Others	0	0

According to Mueller et al (1987, p. 15), "Accounting cannot be highly developed in a country where general education levels are low... At the same time, the users of a company's financial reports must themselves be sophisticated-or else there will be no demand for sophisticated accounting reports". As far as Libyan education levels are concerned, there is a need for a simple accounting system, which is not the main feature of the UK accounting system. Therefore, the evidence so far highlights another difference between the environmental context of accounting in Libya and developed countries such as the UK, which makes the relevance of the UK accounting system to the context of Libya questionable.

8.2.3-Professional Accounting

According to Watts (1996, p. 238), the size and age of the accounting profession is one of the identifiable features differentiating countries. He argues that “countries with a large number of private shareholders, a large number of public companies and which strive to achieve a true and fair view, are likely to need a large number of accountants and auditors capable of exercising the necessary judgement to form opinions. This makes for a very powerful accounting profession which in turn enables the profession to influence further the form and content of accounting practices”. Thus, size, status and qualifications of professional accountants can be another criterion for assessing the relevance of developed countries' accounting systems to developing countries. In many developed countries including the UK, there are highly qualified professional accountants and a well established accounting profession with sophisticated accounting systems (Mueller et al, 1987).

According to Nobes and Parker (1991, p. 8-10), the UK is one of the vital countries in terms of size and role of the accountancy profession. Approximately 150,000 accountants in the UK belong to professional bodies with the power to audit (Watts, 1996, p. 239). Professional accountants must meet certain preconditions before being allowed to practise, one of which is to pass a series of professional exams. The range of services offered by professional accountants in the UK varies. According to Arnold et al (1994, p. 21), in 1992 auditing services accounted for 50 per cent of the total turnover of accounting firms. Other services offered included: tax services, management consulting, insolvency services, advice on acquisition and mergers, and even environmental audits (i.e. assisting companies in controlling their energy usage, pollution costs, etc.). As a result, the accounting profession in the UK plays a significant role in developing and maintaining accounting principles and systems (Arnold et al, 1994).

In most developing countries the accounting profession is relatively new, and its role in developing the accounting system and education is not sufficiently recognised. It was only in 1973 that the LAAA was established. The shortage of qualified professional accountants in Libya has hitherto been met by foreign experts.

Public accountants in Libya were found to be mainly engaged in auditing and preparing financial reports which ranked the highest among the other listed services, with average scores of (3.2) and (4.2) respectively (see table 11). Other services are rarely provided, particularly where they are not required by law and there is low demand. The lack of awareness of services and the role that professional accountants provide, could partly explain this.

None of the professional accountants who now work in Libya have sat any kind of professional exam. A Bachelor's degree in accounting is enough to practise as a professional accountant. There is no education linked to the profession and the profession is not even involved in determining the contents of accounting degrees. In several cases, professional accountants hold only a vocational qualification in accounting (see Table 31).

Table No (31) Education background of public accountants

		F	%
a	More than Baccalaureate in Accounting	13	32
c	Baccalaureate in Accounting	22	56
d	Vocational qualification	5	12
e	Others	0	0
T		40	100

As Table (31) shows, the highest percentage group at 56 per cent of the selected sample is the accountants with a Baccalaureate degree; second is 32 per cent accountants with more than a Baccalaureate degree; and 12 percent are accountants with only a vocational qualification.

The findings of this research also revealed that Libyan professional accountants have no role in developing the status of accounting. Weak professional control and deficiencies in monitoring accounting education are evident in Libya (see Table 10). Therefore, the relevance of the UK accounting system, which is developed basically

to operate in a developed economy under the control and supervision of a strong accounting profession and a high level of awareness among the public and government about the role of accounting, is highly questionable as far as the present status and role of accounting profession in Libya is concerned.

8.2.4- Enterprises' Objectives

Previous chapters indicate that Libya has been engaged in social and economic development programmes for many years. Companies with a capitalist orientation, such as in the UK, are likely to have a narrow range of objectives (see Hutton, 1995, p. 282), whereas a centrally planned economy such as that of Libya is likely to have enterprises with broader social objectives eg., maintain employment and self-sufficiency targets. Kollaritsch (1984, p. 175), argues that;

“In some countries, especially the socialistic nations, the attitude prevails that the national interest must be given priority over the individual or corporate interest. All of these attitudes give rise to different managerial accounting and reporting requirements”

Profit maximisation has a lower priority for Libyan companies. Instead meeting social responsibilities towards society at large, whilst achieving sufficient profit to help the company to survive and expand, is the main priority for most companies. This is reinforced by officers in the Secretary of Economics and Planning and in the Secretary of Industry,¹³ who agree that maximising company profit is not the prime objective. The senior officer in the Secretary of Economics and Planning pointed out that if profit maximisation is perceived as the main objective of enterprises in Libya, many companies (or some of their branches) would not be located in places or provide services or products at existing prices as they would not be accepted from the point of view of profit maximisation.

As a consequence, information needed by users in the two societies is expected to be different. In Libya, information about revenue, losses and profit in terms of finance is not the only information needed by the main users. Information that deals with the

¹³ Interview with officers in the Ministries of Economics and Planning, and Industry, about what they perceive as the primary objective of Libyan companies.

physical product as well as social aspects is also greatly needed. Social accounting is expected to play an important role in controlling and evaluating performance as well as in the socio-economic development process.

Implementing the UK accounting system, which is mainly oriented to financial accounting with the main focus on providing information for profit maximisation (Glautier and Underdown 1994, p. 40), and has also been highly criticised for its lack of concern about social aspects (Nobes and Parker, 1991, p. 148), would be irrelevant to Libya

8.2.5- Users of accounting reports and information needs

In developing countries such as Libya, the main users of accounting reports are not the same groups as those in Anglo-Saxon countries. In the UK for example, investors and creditors are the dominant users, less attention has been paid to other users (Cook, 1983). In the UK the shareholders and potential investors include creditors, analysts, and the government, requiring information which will mainly help them to determine the profitability and financial position of the company. Thus, external financial reporting in the UK has a long history of financial accounting as its major focus.

On the other hand, in a developing country such as Libya, investors are very few in number and consist of organisations rather than individuals. Periodically the Government guarantees loans for state owned companies, and in many cases private companies, therefore the banks do not necessarily face risk relating to credit decisions on loans. Thus, creditors become less interested in a company's accounting information. Government agencies such as the Industrial Secretary, and the Economics and Planning Secretary, the Institute of Public Control (IPC), the Treasury Secretary, and the Central Statistic Office, are the main users of accounting reports in Libya. This is because the private sector is relatively small and has little power when compared with large public sector companies on which the Libyan economy depends. Libya has been implementing a political system where the population is encouraged to participate in the control and evaluation of the

performance of the all of the country's economic activities through their BP Congresses. Therefore, the local community and the general public seem to have another reason for reading company accounting reports. Employees in most companies in Libya claim to be partners in their companies, thus they participate in the profit distribution. This provides another incentive for them to be interested in the enterprises' accounting reports. Therefore, these public users and employees in Libya could be seen as another important group of users of accounting reports.

It could be argued that external financial reporting in the UK recognises the needs of the government as a user of such information, but only for tax purposes and for compliance with Companies Acts. Therefore, it is possible to claim that the prime users of accounting information in Libya and the UK are relatively different.

The focus of information provided by companies is expected to be different from one country to another in accordance to their prime users. This is confirmed in the accounting literature by the United Nations (1976) and Hove (1986). Samuels and Oligo (1982, p. 79) for example, reveal that the information required (in developing countries) might not be just that which relates to financial costs and returns. However, representatives of the main users of accounting reports in Libya who were interviewed in this study, also agreed that the kind of accounting information they required is missing in the current accounting reports as it is mainly oriented to providing financial data¹⁴.

Belkaoui (1985) argues that in developing countries, where the private sector is often small and of less importance, the increasing entrepreneurial role played by governments at local and national levels, creates more demand for adequate information not only for planning purposes, but also for controlling the economy as a whole. Thus, all government economic development activities should be based on

¹⁴ See answers provided by the senior officers in the Secretaries of Economics and planning p. 198, Secretary of Industry p. 198, and executive manager in IPC p. 199, about the kind of information required by them and if it is available in the current financial reports.

well-informed decision making. Enthoven (1977) asserts that integrating the three major areas of accountancy (enterprise accounting, government accounting and social accounting) in each country into a single accounting framework is a prerequisite for an effective role for accounting. The accounting in the UK is criticised on the absence of this linkage, and as far as the Libyan economic system is concerned, there is the need to establish an efficient linkage between all the branches of accounting in order to provide useful information to its users and increase the role of accounting.

8.2.6- Managerial differences

As mentioned earlier, managers in developed countries such as the UK are expected to have an awareness of implementing a complete management system, by which relevant reliable and timely information can be obtained. Developing countries in general have managerial issues that exacerbate their accounting problems. According to Holzer (1981), "managerial problems are also evident in these countries (developing countries) such as poor internal control; lack of management accounting concepts; incomplete, inaccurate and late records closing; and unauditible systems". Libya is no exception to other developing countries. In many companies there is no detectable effective internal control or auditing system¹⁵. Information provided by the accounting system is mainly oriented towards external financial reports¹⁶. The reliability of this information is questionable, there is a considerable delay in preparing accounting reports; and the information does not provide a complete picture of the company's position. Managerial accounting rarely exists in most companies¹⁷.

Many of the management issues relating to differences in organisational structure and management practices will be examined in chapter nine. This is in order to gain further insight into the relevance of an Anglo-Saxon accounting system to the Libyan environment.

¹⁵ See page 255 presenting the effectiveness of internal control and auditing systems

¹⁶ See Table 15, Type of accounting reports prepared by Libyan companies.

¹⁷ See Tables 27 Management and cost accounting methods prepared by companies

Generally speaking, the above discussion indicates that significant differences exist between Libya and the UK in almost all the investigated environmental factors, and so puts the relevance of the UK accounting system to Libya into question. As the UK accounting system has always been classified with the micro-approach group, this result also supports the notion that the Libyan accounting system should be classified in the macro-uniform group.

8.3- Aspects of cultural differences

Significant studies conducted on the relationship between accounting and the environment have acknowledged the importance of environmental factors and in particular, the culture factor in shaping a country's accounting system (e.g. Nobes 1983, 1984; Nobes and Parker 1991; Hofstede 1987; Schuerder, 1987; Bloom and Naciri 1989). Divergence between accounting systems in different countries does not exist accidentally. Culture is often considered as one of the powerful environmental factors giving rise to these differences. This is due to the proposition that accounting is a socio-technical activity involving an interaction between both human and non-human resources, and as the two interact, accounting cannot be culture free (Violet, 1983).

It is also argued that accounting is determined by culture (Violet, 1983). This argument was supported by Bloom and Naciri (1989), when they provided evidence that approaches used to establish accounting standards are functions of the cultural factors inherent in each country. A lack of consensus among different countries as to what represents proper accounting methods is because their purpose is cultural and not technical (Hofstede, 1985).

Mckinnon (1985), in his examination of the appropriateness of the Anglo-American principles of consolidation introduced into Japanese law in 1977, found that historical, cultural, and corporate structural differences between the two countries lay behind the failure of these consolidation policies to reflect adequately the nature of corporate group associations in Japan.

This researcher claims that the importance of the cultural factor in influencing accounting may be attributed to the fact that culture is not an isolated environmental factor. It has profoundly contributed in forming most other environmental factors such as economic, political, legal, management and social systems. For instance, the capitalist system in the west can be seen as a result of the individualism orientation in the cultural dimensions of those countries concerned and socialism in many other countries, is the result of the cultural anti-individualism orientation (Perera, 1989).

Power distance may be another example of the influence of culture on environmental factors, this time the political system. In countries with a strong power distance orientation, as in most developing countries, an autocratic system with a centralised decision making process is most likely to be the case. In contrast, countries that rank low on the power distance dimension (such as the UK and US) are most likely to be associated with a democratic system with decentralised decision-making. It can be argued therefore that relevance of the cultural factor implicitly means relevance to other factors. The influence of culture on an accounting system and practice can be expected to be directly through influences on accounting and accountants, or indirectly through economic, political, legal, management and social systems. In the case of Libya, the importance of cultural influences on accounting can be reinforced by the fact that all environmental factors, except culture, have changed and accounting has always been shown to have a limited role regardless of the changes that have taken place.

The general consensus between researchers [e.g., Jaggi, 1975; Violet, 1983; Belkaoui, 1989; Perera, 1989; Bloom and Naciri, 1989; Gray, 1989) on the strong relationship between accounting and culture, suggests that for any accounting system to be viable in a country, it is important that the system be consistent with the cultural values in that country. Investigating the ranking of Libyan culture on Hofstede's dimensions and comparing it to the UK will help establish the consistency between Libyan cultural values and its adopted accounting values.

8.3.1- Hofstede's Dimensions in Libya

Hofstede's dimensions are adopted in this study for two reasons. The dimensions are built on cross-cultural research and, therefore, provide more reliable guidance to the study of the cultural context in different countries and therefore, seem to provide a more rational basis for comparing national culture. Hofstede's dimensions are used by Gray (1988) in developing a model to study the relationship between culture and accounting. Gray's hypothesis is used to examine the assumption that the environmental differences between Libya and the Anglo Saxon world, particularly those associated with culture, are some of the elements that stop the later accounting approach from having a more effective role in Libya.

Although Hofstede's research does not isolate Libya as a single country, he assesses its culture by referring to the Arab speaking countries in general. In spite of the fact that most Arab countries share the same language, religion and race, they are not typically identical in their cultural context. Hofstede himself mentions this when he explains the scores of Arab countries on an individualist dimension, "The group of Arab-speaking countries..... scores an average of 38, of course the Arab countries differ among themselves, and impressionistically the Saudis within this region are even more collectivist than some other Arabs like Lebanese or Egyptian" (Hofstede, 1991, p. 54). The differences could be attributed to reasons such as (1) different economic and political systems that are applied in each country; (2) different forces of colonisation, and consequently culture in these countries is expected to be influenced differently by the foreign power; and (3) differences in their economic conditions and population.

In the case of Libya, Zarrugh (1959) states that:

"It can be confidently asserted that the years of Arab, Turkish, and Italian rule and the final short period of British-French rule all left their mark on the religious, social and political life of the people. But of all these conquests and occupations, none had a more profound and lasting effect than the Arab conquest, for throughout all these centuries the country has remained Arab in culture and Islamic in religion."

Kaabur (1995, p. 28) also points out that “despite the continuous change in the social structure and the way of life as a response to the change in the political and economic structure started by 1969, the Islamic values and beliefs are still deeply ingrained in the Libyan society”.

The following discussion will show the application of Hofstede’s dimensions to Libya.

8.3.1.1-Power Distance

Power distance relates to the extent to which the members of society accept that power in institutes and organisations is distributed unequally (Hofstede, 1980,1984). From the historical background, one may see that current Libyan culture is a product of many external factors such as colonisation, and internal factors such as custom, tradition and religion ethics. For example, during periods of colonisation, power and authority were always in the hands of the colonisers. The locals were often isolated and classified as second class citizens playing no role in decision making, simply obeying a higher authority. The hierarchical structure has become the main feature of Libyan society. This is also reinforced by Islamic belief and Arab traditions which recognise a status hierarchy (Bjerke and Al-Meer, 1993), in which authority is practised mostly by leaders at the community level and by the father at the family level.

In Libya, the family is a society in miniature, its members are assigned to a hierarchical order according to age and generation. All authority and leadership belong to the father, grandfather, or eldest son (El Fathaly, 1977), which is also in line with Muslim belief. El Fathaly (1977) states that “in Libya there is inevitable association between family prominence and religious leadership”.

The gap in authority between members of society and members of the family clearly exist in Libya. According to Hofstede (1991, p.165), “these relationships are based

on mutual and complementary obligation". In the Libyan family, the father is a supreme autocrat with full control over the family income, properties and decisions. Likewise, at the society level, members know their own position in the whole social set-up and behave in a manner consistent with the expected code of conduct.

As in a strong power distance country, the government can be seen as a superior authority which should not be challenged. Libya has a tradition of bureaucracy with a highly structured centralised administrative system. According to El Fathaly (1977, p. 10), "the authority and leadership in Libya demand absolute loyalty from family members. To act contrary to familial leadership is to commit treason and is treated as such. The decisions of the leaders must be respected and carried out by all the members". Another indication for the prevailing strong power distance in Libya can be seen when government during the 1970s made an attempt to modernise the traditional leadership, to undermine the tribal system, and destroy public trust and loyalty to traditional institutes and leaders by replacing *Sheiks* and indigenous leaders by modern educated people. According to El Fathaly (1977), the power of the traditional leaders, resting in part, as it did, on the public's loyalty to tradition, was far stronger than the new leadership anticipated.

Hofstede suggests that poor countries are expected to have a high score on power distance. Thus, the high rank of Libya on this dimension is reinforced as Libya was one of the poorest countries in the world for a long period of time before the recent oil discovery of the 1960s and cultural values take a long time to change.

Referring to Hofstede's (1984) ranking on power distance dimension, as presented in Table (32), Libya ranked high within the Arab countries (80), whereas in most western countries such as the UK, power distance is low ranking only (35).

8.3.1.2- Uncertainty Avoidance

Uncertainty avoidance represents the extent to which members of a society feel uncomfortable or nervous in unstructured, ambiguous situations, and try to avoid

such situations by strict rules of behaviour, intolerance of deviants, and a belief in absolute truths (Hofstede, 1991). Thus, societies use laws, formal rules, and religion to cope with uncertainty. At the national cultural level, tendencies towards rigidity in law and dogmatism, intolerance of different opinions, traditionalism, etc., all relate to a norm for intolerance of ambiguity.

According to Hofstede (1983), Arab countries tend to score high on this dimension. Reviewing the culture and religious values in Libyan society indicates that Libya displays characteristics in common with other Arab countries. Avoidance of uncertainty and ambiguity by Libyan people can be seen through their social framework. For example, many traditional customs, laws and rules are designed so that they encourage people's conduct not to deviate from the prescribed code. Adherence to these approved codes is taught to their children. According to El Fathaly (1977), the family, as well as the clan and the tribe, functions as the education, economic, and security providing organisation for its members. Also, the individual in Libya has to obey, respect, and preserve the rules and traditions of these social units.

Uncertainty avoidance is in contrast with the spirit of initiative but this should not be confused with the fact that Muslim people are fatalistic. Muna (1980, p. 94-6) argues in this regard that "past and present Islamic achievements (which are in harmony with Islamic teaching) demonstrate the use of long-range planning and a desire to understand and control the environment. The Islamic religion reinforces the fact that Muslims are discouraged from being involved in any ambiguous and uncertain transactions or situations". According to El Fathaly (1977, P. 12), "the strong role of religion in a traditional Islamic society like that of Libya has produced a society with special features. Conservative attitudes have been predominant in every respect. People's values and behaviour have been a function of their religious background and attachment; hence, evaluation and acceptance of innovation and change has been subject to religious beliefs and notion".

From the findings of Hofstede's research (1983), the US and most western countries such as the UK, have shown an entirely different orientation from Libya on this dimension; the UK ranks relatively low (ranking 35) compared to Libya (ranking 68) see Table (32).

8.3.1.3- Collectivism Vs Individualism

Individualism refers to a preference for a loosely knit social framework in society, wherein individuals are supposed to look after their own interests and those of their immediate family (husband, wife and children). In collectivist societies on the other hand, people remain, throughout their lives, members of larger but close-knit groups which protect them in exchange for unquestioning loyalty, and which compete with other in-groups (families, tribes, clans or villages) (Hofstede, 1991).

The Arab customs and tradition are based mainly on collective gregariousness and solidarity between individuals in their immediate relatives, tribes and village. In Arab tradition, the identity of the individual is mostly seen through the identity of their tribes. According to Muna (1980 p. 36), "when Arabs meet their countrymen for the first time, they usually attempt to establish each other's family identity. By contrast, in Western countries people start by revealing their occupation, and in Japan by giving the name of their employer". Islam also reinforces the collectivism orientation between Arabs. Muslims are required to co-operate with each other and to share one another's sadness and happiness.

Libya is not different from other Arab countries. The basic units of Libyan society are the extended family, the clan, the tribe, and the village. The family membership is a requirement, in most cases, for membership in large units like clans and tribes (El Fathaly, 1977). According to El Fathaly (1977), it is the family unit that integrates virtually every aspect of the individual's life: social, economic, and political. It is the family "which socialises the individual into his culture and which bears primary responsibility for his adherence to social norms". In return, the individual in a traditional Libyan society subordinates his personal interests to those of his family

and considers himself to be a member of a group whose importance outweighs his own (ibid).

El Fathaly concludes that in Libya, the high degree of collectiveness and solidarity cannot be matched in any modern organisation. In return, the individual has to obey, respect, and preserve the rules and traditions of those social units, because his good or bad deeds bring collective fame or shame to the family and to the tribe.

According to Hofstede's findings, the US and the UK are among the most individualistic societies, ranking respectively 91 and 89, which are significantly different from a country like Libya (see Table (32)).

8.3.1.4- Masculinity Vs Feminine

In masculine cultures, men are expected to be ambitious, assertive, concerned with money, and to admire whatever is big and strong. In feminine cultures on the other hand, men and women are both expected to be non-competitive, modest, concerned with relationships, and to sympathise with whatever is small and weak (Hofstede, 1991).

According to Hofstede's findings, Arab cultures in this dimension, rate as moderately masculine. According to Sabri (1995), this may be due to the existence of strong sex role distinctions and women's work is identified as lying largely within the family domain. However, in reality, Libyans show a great deal of caring and concern for others such as family members, neighbours and friends and they sympathise with weak people (for example, poor people and people of travelling status). The relationship between women and men is often misunderstood by the west. In Libyan society, the relation between women and men is not based on a competitive role, but on complementary roles. This can be seen in many Libyan traditions and customs and is reinforced by their religious belief, which in many cases highlights the status of women. For example, a man asks the question to Prophet Mohamed (peace be upon him) "Who deserves the best care from me?",

Prophet Mohamed replies “Your mother”. The man asks, “Who then?” The prophet says “Your mother”. The man asks yet again, “Who then?” The Prophet says, “Your mother.” The man asks once more, “Who then?” and the Prophet then says “Your father.” (Sahih Al-Bukhari).

Serving and caring for the mother in Islamic belief is one way to paradise, thus Prophet Mohamed says “Paradise lies at the feet of your mother.” (Sahih Al-Bukhari)

According to Hofstede’s ranking, the UK is 66 on the masculinity dimension, which is higher than the ranking of Arab countries (53). Although this difference is not large, it still reinforces the differences between the UK and Libya on most of the culture values dimensions.

It is important to note that Hofstede’s fifth dimension ‘Time Horizon’ was added in Hofstede’s later work (1991) and was not reflected in Gray’s model. As a result, it is excluded from this study.

Table No (32) Index values of selected countries on four cultural dimensions

Country	Power Distance index	Uncertainty Avoidance index	Individualism index	Masculinity index
Australia	36	51	90	61
Belgium	65	94	75	54
Canada	39	48	80	52
Chile	63	86	23	28
Denmark	18	23	74	16
France	68	86	71	43
Germany	35	65	67	66
Great Britain	35	35	89	66
Greece	60	112	35	57
India	77	40	48	56
Iran	58	59	41	43
Japan	54	92	46	95
S. Korea	60	85	18	39
Malaysia	104	36	26	50
New Zealand	22	49	79	58
Pakistan	55	70	14	50
Sweden	74	8	20	48
Singapore	31	29	71	5
Turkey	66	85	37	45
United States	40	46	91	62
Arab- countries	80	68	38	53

Note: The higher the number, the higher the country ranks on that particular dimension.

Source: Hofstede (1983, p. 50)

8.4- Gray's dimensions and accounting in Libya

In a similar way to the dimensions of cultural values, the dimensions of accounting values are not directly observable. They constitute conceptual constructs underlying accounting practice. Gray (1988) introduced a theoretical framework by which the influence of culture on accounting can be assessed (see chapter four). He provides a number of hypotheses relevant to predicting the likely nature of accounting systems in a comparative international context. These hypotheses recently have been used in the classification of accounting systems in countries and in assessing the relationship between culture and accounting practices (particularly in Anglo-Saxon and continental European countries). However, Libya has been excluded from all of these studies and little is known about the relationship between its accounting system and culture. Based upon the classification of Libyan culture values on Hofstede's dimensions, the main features of the accounting system according to Gray's hypotheses should be more oriented towards statutory control, uniformity, conservatism, and high secrecy. In this section an attempt is made to test Gray's hypotheses and to ascertain the likely nature of the Libyan accounting system.

Gray's model has been used empirically. However, there has not been obvious agreement as to the means by which the accounting dimensions can be measured. Proxy variables need to be identified to reflect the underlying accounting dimensions. The mix of these variables inevitably changes from one study to another to reflect the intrinsic nature of the country's history, economy and culture. The absence of a single approach requires this study to identify proxy measures appropriate to Libya. As Libya is seen as having adopted the Anglo-Saxon accounting approach with the main characteristics of self-regulation, without significant change or adaptation, this greatly affects the investigation of accounting values as they may well reflect the "imported" orientation rather than those of Libyan culture. The fact that Libyan accounting may display characteristics at odds with cultural orientation requires careful reflection in order to establish the divergence in reality.

8.4.1- Professionalism versus Statutory Control in Libya

One of Gray's (1988, p. 9) hypotheses is that the higher a country is in terms of individualism and the lower it ranks in terms of uncertainty avoidance and power distance, then the more likely it is to rank highly in terms of professionalism.

Testing this hypothesis in Libya or in any other country, requires an understanding of the concept of professionalism and the variables by which it can be measured. As presented in chapter four, Gray defines this dimension as a preference for the exercise of individual professional judgement and the maintenance of professional self-regulation as opposed to compliance with legal requirements and statutory control. Salter and Niswander (1995) also interpret it as (1) a choice or preference as to a source of accounting rules and decisions (Auditor Judgement); and (2) the source of regulation of the profession (Professional Structure). With regard to the means by which this dimension can be ranked, Sudarwan (1995, p. 80) states that:

“The professionalism of accounting depends upon the presence of such characteristics in financial reports, and accounting standards Thus, observations on the practice of companies' financial reports and accounting regulation processes may provide indicators to the levels of professionalism in accounting practice.”

In line with the difficulties in any accounting measure, there have been different approaches to measure this variable. For instance, Sudarwan (1995, p. 80-83) used the following variables:

- (1) The number of accounting methods not permitted by accounting standards, but applied in financial reports (Sudarwan, 1995). This is based on the claim that any departure from accounting standards found in a firm's financial reports lessens the level of professionalism.
- (2) The number of accounting and auditing standards issued by the professional Association (in the Sudarwan case this was the Association of Indonesian Accountants) and the contents of these accounting and auditing standards. This is built on the claim that any accounting or auditing standard that results from a

process operating under heavy government influence indicates a weak self-regulatory process.

- (3) Types of Auditors (i.e. private or government) and the basis of auditors' opinions. This is based on the claim that professional auditors provide a service needed by managers of firms to enhance the reliability of financial reports, whilst government auditors who conduct audits on financial reports of state-owned enterprises may not be perceived as reliable in comparison to auditors from public accounting firms. Auditors' opinions give an indication to the public of the reliability of a firm's financial reports.

Salter and Niswander (1995) used two main elements to measure professionalism in their research: Auditor Judgement and Professional Structure. The former was measured on the four point scale based on Bavishi (1991, p. 403) ranging from "in conformity with local legal requirements" to a "true and fair view". The latter was measured on three axes (a) the longevity of the profession; (b) professional control over entry into the profession; and (c) professional control over ethical and other audit behaviour standards.

Although these models seem to provide an insight into measuring professionalism, their applicability to this study is restricted. The Sudarwan (1995) model was built to measure dynamic changes in accounting values in comparison with dynamic changes in cultural values, and Salter's model was built for international level activity. In order to assess the level of professionalism in Libya, the researcher found it necessary to use a mixture of measures, including some drawn from Sudarwan (1995) and Salter and Niswander (1995).

In both Sudarwan's (1995) and Salter's (1995) studies, the main criteria by which the professionalism dimension is measured seem to be built on the role of professional accounting, compared to the government's role, in controlling the profession in general, its role in issuing accounting and auditing standards, and the types of auditors' opinions on the firms' financial reports. The historic and empirical review

of accounting in Libya in chapter six identified many facts which can be useful in measuring professionalism.

1-The influence of Laws on accounting and auditing in Libya

The accounting literature indicates that accounting or auditing operating under the influence of heavy laws reflect a weak self-regulatory process. For example, investigating the role of laws in accounting development in Libya reveals that tax laws and the commercial law have a significant role in the evolution and development of the present accounting system (El-Sharif, 1981, see also chapter six). The LCC of 1952 and Tax Laws cover, amongst other things, accounting records, accounts, financial statements, profit distribution, reserves and liquidation.

According to Bait-El-Mal et al (1973), the 1968 tax law has had an influence on accounting practice in Libya such that many companies have often adopted tax guidelines for general external reporting. Laws and regulations have become a key source of accounting methods and rules in preparing financial reports. The influence of laws on accounting in Libya is also evident in this study (see the findings in Table, 7) when accountants in the selected companies agreed that “Libyan laws and regulations” are one of the main guidelines for their accounting practices, ranking the highest among the other listed sources with an average score of (4.14). However, the evidence of the activities of the accounting profession in developing accounting in Libya indicated a very limited role. For example, companies’ accountants in Table (7 item b) gave very limited importance to the “accounting pronouncements of the Libyan accounting profession” as a source for their accounting practices and methods with only an average score of (1.8).

The impact of laws on the development of accounting in Libya was also evident in this study, when managers of Libyan companies gave “complying with the country's laws and regulations” the highest ranking with an average score of (4.3) amongst the other listed reasons for bringing about the accounting practices in Libya and much more so than the other reasons given (see Table, 6).

The influence of regulation on the auditing process can be another indication for professionalism. For example, the auditing process operating under heavy government influence is expected to weaken the self-regulatory approach.

With regard to regulation in Libya, the Commercial Code (1952) was found to be the first to require Libyan corporations to present an annual report to their Annual General Assembly's meeting. This report has to be prepared by a corporation's controlling Committee in which at least one of the members should have accounting experience. In this report, the controlling Committee should express its opinion about the corporation's results and the accuracy of its accounts and its balance sheet. This was also reinforced by Law No. 65 of 1970, article 13, which required Libyan corporations to form audit committees in which at least one of the members should have experience in financial affairs and accounting. Tax law (No. 64 of 1973) also requires the financial statements and other attached documents of the taxpayer to be signed by his legal representative, who could be a public accountant.

In contrast, the accounting profession in Libya as shown in Table (10), plays no role in matters related to auditing accounts. However, the influence of the law goes further to intervene in the appointment of auditors. According to law No. 188 of 1973, which was issued by the council of ministers and reinforced by law No. 79 of 1975 article no. 18 and 19, the appointment of auditors of Libyan corporations and companies either fully-owned by the state, or where the state owned more than 20 per cent of the capital, should be based on the recommendation of the IPC. In theory, the law seems to reduce professionalism when Article no. 19 paragraphs 1 and 2 of 1975 law stipulated that the fees of auditors should be fixed on the recommendations of the IPC, and the auditors made responsible to the IPC.

Investigating in practice some of the working procedures of public accountants such as ways of obtaining new work and ways of determining the auditing fees in Libya, indicates that most of the work conducted by public accountants was found to be transferred to them by the IPC (with an average score of 3.8) (see Table 33).

Table No (33) The most frequently used basis of obtaining new work or business by public accountants

		M
a	Direct personal contact with companies	2.7
b	Invitation from company to bid for work	1.2
c	Through Institute of Public Control	3.8

Table No (34) The most frequently used basis in determining the total work fees

		M
a	Direct negotiation with the company's management	1.8
b	Fixed percentage determined by laws or regulation	1.2
c	By Institute of Public Control	3.9
d	others	0

There are relatively few cases (with an average score of 2.7) where public accountants obtain their work through direct contact with the companies. Also, fees in most cases are found to be fixed by the IPC (with an average score of 3.9) (see Table 34). All of this can be taken as a reduction in the level of professionalism.

Furthermore, the historic review of the auditing process in Libya shows that laws and regulation have played a significant role in bringing about the auditing process. This is reinforced by the findings of this study as company managers were provided with a list of the possible reasons as to why their companies' financial reports were audited by external auditors and were asked to indicate the extent to which they agree on each of them (utilising a standard Likert scale with (1) 'strongly disagree' to (5) 'strongly agree'). The findings in Table (35) show that complying with Libyan laws and regulations is one of the main reasons for their auditing processes ranking the highest among the other listed sources with an average score of 4.2. Although managers seem to score also relatively high on "Increasing the reliability of the company's financial reports" as a reason for auditing processes with an average score of (3.2) the earlier investigation of the reliability of the companies accounting reports does not support this claim.

Table No (35) Managers' view about the main reason for auditing their companies' financial reports.

		M
a	Complying with the legal requirements	4.2
b	Increasing the reliability of the company's financial reports	3.2
c	Others	0

Although neither the commercial law nor tax laws specified the auditing standards, in the absence of an organised accounting profession the income tax law and commercial code became an important reference point for auditors in Libya. This situation was found to still be the case when public accountants were asked about the importance of the compliance of the accounting practices with the Libyan laws in their auditing reports. As indicated in Table (12), most respondents agreed that complying with the country's laws and regulations is extremely important in their auditing report ranking (4.2) and much more so than the "complying with Accounting Standards and pronouncements issued by LAAA" or with "General Accepted Accounting Standards" with average score of (1.2) and (3.1) respectively.

The above findings tend to suggest that auditing in Libya is conducted under the influence of laws and regulation, which in turn may reduce professionalism.

2-The role of Accounting Profession

As discussed in chapter six, the Libyan accounting profession can be traced back to the 1950s when accountants started to practise with no formal permission or licence. Many environmental factors including international companies (mainly from the US and the UK), international accounting firms (mainly from the US and the UK), accounting education, accountants from other countries, and Libyan students with an accounting education coming from other countries, caused the Libyan accounting profession to follow the same path as its counterparts in the UK and the US (see chapter six). The establishment of the Libyan Accountants and Auditors Association (LAAA) in 1973 was to develop a Libyan accounting profession.

An apparent self-regulatory approach is adopted as there is not an imposed chart of accounts or plan. The laws did not specify any accounting standards or plan to be adopted. Thus, government intervention seems to be restricted to a general outline, mainly of the administrative aspects, leaving the rest to the profession itself. In theory, this indicates a high level of professionalism. Salter and Niswander (1995) and Sudarwan (1995) both used the role of the professional accountant in general aspects as another measure of professionalism. Investigating the role of the accounting profession in Libya in developing, organising and controlling accounting shows a general agreement between the respondents (public accountants), that the LAAA has had very little success in achieving most of the listed objectives.

Investigating the extent to which the accounting profession has been involved in guiding the government (Secretary of Finance and other related government agencies) in drafting laws, reveals that the accounting profession in Libya has played a limited role with an average score of 1.2 (see Table, 10, item, l). A high level of professionalism indicates that the accounting profession would be expected to be involved in monitoring accounting education and training in the country. Table 10 (item k) shows that the accounting profession in Libya has a very limited role or involvement in accounting education and training, with an average score only (1.1). Libyan professional accountants have no role in developing accounting and auditing standards nor a code of ethics, with an average score of (1.2). A very limited role in conducting effective research programmes to help develop or modify accounting in order to be useful and relevant to the Libyan environment, with an average score of (1.5). Also, the accounting profession in Libya plays a limited role in issuing instructions about accounting practice and methods with an average score of (1.3). There is also weak professional control over accounting practice and policy, with an average score of (1.2),

If the profession did play an active role in the regulatory system of accounting, the value of statutory control would be weakened. The finding in this study so far indicated this is not the case in Libya, which also reinforces El-Sharif's (1981, p. 39) findings that "in the absence of an organised accounting profession, the Income Tax

Law has a significant impact upon the practice of accounting in Libya. It appears that many business firms incorporated tax regulation as well as Libyan commercial law requirements into external financial reporting". According to the findings of these measures, it seems that the level of professionalism in Libya is low.

One of the other measures that Salter and Niswander used as an indication of professionalism is the longevity of professional accounting. The self-regulatory approach has been adopted since the Italian colonial period and government involvement in the accounting profession is low. However, the first Accountants and Auditors Association (LAAA) which is devoted to the development of the accounting profession, is a relatively new organisation established only in 1973. This indicates only limited experience in comparison to the UK profession which was established in 1843. However, longevity alone may be not an adequate measure of professionalism because the role and status of professional accounting is not always correlated with longevity. The findings of this study so far have indicated the status and role of the LAAA is low. Thus, according to Salter and Niswander's (1995) criteria the level of professionalism in Libya is low.

Salter used the process of control over entry into the profession through setting exams as a sign of higher professionalism. In Libya this factor indicates a low level of professionalism; the LAAA does not require professional exams to become a member. Holding a bachelor's degree in accounting with five years' experience is enough to obtain a licence and practise the profession.

Salter and Sudarwan (1995) used auditors' opinion on companies' financial reports as another measure of professionalism. Investigating a range of the auditing reports for some Libyan companies indicates that a 'true and fair view' is frequently used by Libyan auditors. On first sight, this gives an indication of a high level of professionalism. However, given the fact that there are no agreed accounting and auditing standards, a statement of "true and fair" could give rise to a dispute about the accounting and auditing standards to which the auditors refer. Inheriting the form, contents and practice from the UK's auditing reports is the most likely reason

for using this statement rather than this being a reflection of genuine adherence to professional standards.

As Libyan professional accountants are mainly Anglo-Saxon educated (see chapter 6 section 6.2.2.2.3), the existing public accountants seem to have gained practical experience in the profession under unregulated conditions. This argument was reinforced when an executive manager in the Libyan Institute of Public Control,¹⁸ pointed out that

“the current accounting problems (diversity and low reliability) will persist as long as the accounting profession in Libya is responsible for developing the accounting system, simply because they are doing very well under the present unregulated system.”

This is also reinforced by the fact that although the LAAA stipulates that members who held a licence before its establishment and who have not graduated with a Bachelor's degree in accounting should sit for an examination, there is no evidence of any exam having been held for those members.

The apparently high levels of professionalism in Libya therefore is highly questionable. As discussed in chapter six, the general orientation of the present accounting approach towards self-regulation, did not emerge as a reflection of accounting values prevailing in Libya, but has been inherited from other nations. This was reinforced by accountants in the selected sample who were provided with the two main approaches to accounting regulation (i.e. self regulation and the statutory regulation approach) and were asked to indicate, on the basis of their experience, the approach they thought to be more suitable for developing accounting in Libya.

¹⁸ An interview with executive manager in IPC

Table No (36) Preferred accounting regulation approaches by companies' and public accountants

	Companies accountants		Public accountants	
	F	%	F	%
Self regulation approach	14	28	22	55
Statutory approach	36	72	18	45
Total	50	100	40	100

Table (36) shows there is a general agreement between most company accountants; 72 per cent see the statutory approach as more relevant for developing accounting, whereas 55 per cent of the selected public accountants see the self regulation approach as more relevant. The apparent conflict is resolved when it is recognised that public accountants would be the first to lose under a statutory approach and prefer the loose regulation to protect their own interest. Therefore, the general findings from both groups can be interpreted as a preference for a statutory approach over a self-regulation approach.

Therefore, the adoption of a self-regulatory approach cannot be seen as an indication of a Libyan cultural tendency towards professionalism. The above findings suggest that Libyan laws and regulations seem to play a dominant role in professional accounting practice. They are an important source for accounting and auditing practice which lessens the perceived need for accounting standards. Meeting the requirements of laws and regulations is conceived as crucial in the accounting auditing process.

In general, the prediction of Gray's hypothesis related to cultural dimensions and professionalism is supported by the findings of this study. A regulatory framework based on a self-regulatory approach (which looks similar to the UK/US) has not been achieved. Instead, accountants in Libya have fallen back on government regulation. This also implies the Anglo Saxon accounting approach is not the most relevant to the underlying culture.

8.4.2- Uniformity versus Flexibility in Libya

This dimension (as explained in chapter four) refers to the preference for uniformity of accounting practices between companies within a country or the consistent use of such practice over time within any single company, as opposed to flexibility in accordance with the perceived circumstances of individual companies. According to Gray's second hypothesis, the higher a country ranks in terms of uncertainty avoidance and power distance and the lower it ranks in terms of individualism, then the more likely it is to rank highly in terms of uniformity.

In measuring the level of uniformity in different countries, Salter and Niswander (1995), used two models. In the first model they relied on the theoretical models of Harrison and McKinnon (1986), Nobes (1987), and the empirical work of Salter and Doupnik (1992)¹⁹. According to Salter and Niswander, the nature of the legal system strongly influences accounting practices in each country. Countries with a 'code' legal system generally have high uniformity. In the second model, Salter and Niswander (1995) measured uniformity by examining the number of financial reporting practices for which a country utilised a single method of reporting less than 25 per cent or more than 75 per cent of the time.

Sudarwan (1995) used a similar set of measures in examining uniformity. These measures include:

- (a) the number of accounting changes in a company; companies that do not report any accounting change over time have a stronger orientation towards uniformity;
- (b) comparison of accounting policy across companies for any one reporting period;
- (c) the number of alternative accounting methods prescribed in the country accounting standards for balance sheet items; and
- (d) the number of alternative accounting methods prescribed in the country's accounting standards for the items on the income statement.

¹⁹ see Sudaran (1995) PhD dissertation for more details on the works

As mentioned earlier, a straight transfer of these models to Libya is not possible. It is necessary to select a mixture of measures from both models which are more applicable in measuring this dimension of uniformity in Libya. The historical and empirical review of Libyan companies' accounting policy and practices in chapter six provides an insight into some of these issues. For example:

(1) The legal influence. Accounting literature suggests that the greater the legal influence the less flexibility will exist (ibid). This study so far indicates that although Libya has apparently adopted a self-regulatory approach, which is less influenced by legal requirements, the accounting profession in Libya has in reality played a limited role in developing accounting standards and in creating a general framework for accounting (see Table 10). This has led government laws and regulations to be an important alternative source for accounting practices and methods. As a result, the accounting practices and policy in most Libyan companies were found to be highly influenced by legal requirements, particularly tax laws and the commercial code. If the profession in Libya did take an active part in the regulatory system of accounting, the value of statutory control would be weakened and as a consequence uniformity would be low. In fact, in the absence of any agreed accounting standards in Libya, compliance with laws and regulations in Libya as exhibited in Table (12) has become one of the main concerns of the auditors. All of this lessens the degree of flexibility in accounting.

(2) Consistency in accounting policies and practices between companies in Libya. Measuring consistency between companies as a proxy for uniformity reveals that accounting practice is relatively inconsistent. Accordingly, the public accountants who audit company financial reports (see Table 14) agreed that consistency in accounting practices such as the "form and presentation" of the financial reports' is relatively low ranking average score of (2.3). "Information disclosed" is also shown to be inconsistent, ranking (2.1). There is also a relatively low consistency in "accounting standards and principles" ranking (3.1) and in the "accounting methods" (3.2) which are adopted by Libyan companies. Inconsistency in different accounting

practices between companies in Libya were also apparent in this study (see Tables 15 to 20).

Although inconsistency is normally taken as an indication of less uniformity, the absence of an effective accounting profession and an established accounting framework in Libya, means that the inconsistency (as shown above) cannot be entirely attributed to a cultural preference for flexibility. It could be much more a reflection of the absence of generally agreed accounting standards. Therefore, it would be inappropriate to take these findings as an indication of high flexibility in Libya.

(3) Changes over time in the accounting system within a company is an important measure that has been used by both Salter and Niswander (1995) and Sudarwan (1995) to measure uniformity. Adopting this method, the researcher asked accountants in the selected sample to show whether their companies had made any important changes in their accounting systems and practices over a period of 10 years (utilising a standard Likert scale with (1) 'very small changes' to (5) 'very important changes'). (the length of time was chosen to cover periods in which different environmental changes had taken place). To avoid any ambiguity about the meaning of important changes, the respondents were also provided with some aspects and methods of accounting and asked to indicate if their companies have changed these methods during the last ten years.

Table No (37) Accountants' views about the extent of changes which are made by their companies in different accounting aspects

		N
a	Accounting records and ledgers	1.3
b	Accounting standards and principles	1.
c	Accounting methods	1.
d	Accounting disclosure policy	1.9
e	Forms and contents of accounting reports	1.7
F	Type of accounting reports	1.

Table No (38) Accountants' views about the extent of changes which are made by their companies in specific accounting methods

		NO		Yes	
		F	%	F	%
a	Inventory costing method	48	96	2	4
b	Methods of evaluating year end's Inventory	48	96	2	4
c	Methods of valuing short term investment	50	100	0	0
d	Methods of valuing Fixed Assets	50	100	0	0
e	Methods of Fixed Assets depreciation	50	100	0	0
f	From Historical Cost to Current or Replacement Cost	50	100	0	0

The findings in Tables (37) and (38) indicate that the majority of accountants agreed that there is consistent use of the same accounting practice over a long period of time. There are very few changes which have been made for most of the suggested accounting practices. Therefore, these criteria suggest a high level of uniformity over flexibility.

Consistency in accounting practices within a company can also be inferred when accountants in Libya agreed that "following companies previous procedures" is one of the main guides they rely on in preparing their accounting reports and practices with an average rank of 3.8 (see Table 7). This evidence also reinforces the tendency in Libya toward uniformity over flexibility.

The above findings suggest that changes rarely take place in companies despite the absence of any restrictive law or regulations. This is also despite the fact that the reform to accounting systems is felt to be necessary by accountants in most of the selected companies. The latter was revealed as companies' accountants were provided with two propositions about accounting in Libya, and were asked to indicate the extent of their agreement with them (utilising a standard Likert scale with (1) 'strongly disagree' to (5) 'strongly agree'). As presented in Table (39) there is a general agreement between most company accountants about the need for the present accounting system adopted in Libya to be modified with an average rank of 3.6.

Table No (39) Accountants' perception the current accounting system

		M
a	The present accounting system is suitable to the Libyan environment and there is no need for reform	2.1
b	The present accounting system needs to be modified in order to be more effective	3.6

It can be inferred that cultural intolerance of a new opinion or changes is partly behind the consistent use of such practices over time within a company. This is further confirmed by accountants who felt the need to reform their accounting system. 37 respondents (who made an average score of more than 3 in b in Table 39) were asked to select the reasons they think lie behind why the necessary changes were not made (utilising a standard Likert scale with (1) 'strongly disagree' to (5) 'strongly agree').

Table No (40) Accountants' view about reasons behind not making any adaptations in their companies' accounting systems as they felt the necessity of adaptation.

		M
a	There are not enough qualified accountants who can make changes	1.9
b	There is no encouragement from the management to make changes	3.6
c	The cost associated with changes	3.2
d	Others	0

The results as exhibited in Table (40) indicate that "no encouragement from the management to make the changes", ranked as one of the key explanations. Low encouragement is taken as an indication of a manager's intolerance of a new opinion or changes.

(4) The preference for an accounting regulation approach. Accountants in a country with a cultural orientation towards strong uncertainty avoidance are expected to prefer to work in a situation which is regulated by law leading accounting to be more uniform. As presented in Table 36, company accountants and public accountants were provided with the two main approaches to accounting regulation (i.e. self regulation and the statutory regulation approach) and were asked to indicate, on the

basis of their experience, the approach they think is more suitable for developing accounting in Libya. There is a general agreement between most company accountants; 72 per cent see the statutory approach as more relevant for developing accounting in Libya, whereas 55 per cent of the selected public accountants see the self regulation approach as more relevant. Therefore, the general findings from both groups can be interpreted as a preference for uniformity in Libya.

The preferred orientation of the accounting system towards uniformity was also indicated by interviewees from the Institute of Public Control and the Secretary of Industry about how effective they thought the accounting system would be if it were regulated by a general accounting plan. The former points out that :

“The current accounting problems (diversity and low reliability) will persist as long as the accounting profession in Libya is responsible for its development, simply because they are doing very well under the present unregulated system. Thus, I personally support the notion of adopting a uniform accounting system, because, first it will increase the reliability of accounting information and it will limit the chance for managers to play with the accounting standards and methods for their own interest, and second it will facilitate the process of preparing and auditing companies’s financial reports”.

On the other hand, the senior officer in the Secretary of Industry argues that:

“In the absence of a regulated accounting system in Libya, users at the macro level are very suspicious of the manager’s ability to provide reliable information as they tend to place their company in a desirable position. So I think the adoption of a uniform accounting system would be more useful as it increases confidence in accounting information.”

Finally, it is expected that the status of professional accountants in a society has a great impact on the orientation of an accounting system towards flexibility or uniformity. In the Anglo-American approach, the accounting profession is very powerful and influential, and the regulation of accounting has tended to sustain the position of the profession within society. Clearly, this is not the situation in Libya. The profession in Libya did not take an active part in the regulatory system of

accounting and the value of statutory control became dominant, leading accounting to be more uniform.

The above findings indicate that despite the adoption of a self-regulatory approach which, in theory, has the main characteristics of flexibility, accounting values of uniformity in Libya seem to be preferable. This also suggests that if the current accounting approach in Libya had a chance to be developed independently, it would be more oriented towards uniformity rather than flexibility. Therefore, the existence of an apparently flexible approach in Libya is highly questionable on the basis that it did not emerge as a reflection of prevailing accounting values, but has been inherited from other nations. This result supports the prediction of Gray's second hypothesis and also suggests the Anglo Saxon accounting approaches are not the most relevant to Libya on the basis of cultural differences.

8.4.3- Conservatism versus Optimism in Libya

According to Gray (1988), conservatism indicates a preference for a cautious approach in adopting accounting measurement methods. The preference for more conservative measures is consistent with strong uncertainty avoidance, and with a perceived need to adopt a cautious approach to cope with the uncertainty of future events.

In order to facilitate measurement of this dimension, researchers interpret this dimension into two main proxies of conservatism, prudence in asset measurement and prudence in income measurement. Arpan and Radebaugh (1981) state that "the society's degree of conservatism influences a number of accounting principles and practices, especially valuation and profit determination". Accordingly, they claim that in conservative societies, companies often seek to appear weaker than the true reflection of their performance.

Nobes and Parker (1981, p. 68) argue that "prudence or conservatism is a greater influence on French financial statements than on British or American. This affects both the valuation of assets and the measurement of profit". Arpan and Radebaugh

(1981) provide examples of practices by which companies attempt to appear weaker. They point to the use of historical cost as a reflection of conservatism, as do the lower-of-cost-or-market principle, the recording of contingent liabilities, the over-allowance for bad debts, and the practice of using a wide variety of special reserves.

Salter and Niswander (1995), use two variables (CONM and PESS), to measure the level of conservatism. The first variable was measured by an index of a country's utilisation of a list of financial reporting practices designed to reduce assets or income. The second, (PESS), was a similar index of optimistic financial reporting practices which may be used to increase income and assets. Sudarwan (1995), however, measured conservatism through an order from the highest to the lowest levels of conservatism. For prudence in assets measurement, he listed the alternative possible values for assets as follows:

- a) the lower of cost or market values;
- b) historical cost;
- c) current cost (higher than historical cost; and
- d) market value exceeding both historical and current cost.

For prudence in income measurement, Sudarwan (1995) used differences in the timing of charging expenses and recognising revenues. A prompt charge of cost to current expenses and a longer delay of revenue recognition reflect a more conservative approach to income measurement, such as:

- a) Expense charge (other than depreciation expense);
- b) Depreciation expense; and
- c) Revenue recognition.

The level of conservatism in Libya was measured in two ways; examining prudence in assets measurement and looking at income measurement.

First, prudence in assets measurement. Starting with the legal requirements, for assets measurement, conservatism seems to be evident in Libya. For instance, the LCC determines some of the accounting rules that have to be followed in evaluating

some items of the enterprise's assets and liabilities which reflect a conservatism orientation such as:

- (1) Fixed assets, must be valued at their historical cost at the time of purchase and reduced by the related depreciation in each financial year;
- (2) Recorded trade marks and industrial patents should not be valued higher than their cost or purchase price. The value of the trademarks should also be amortised in each financial period according to their useful life;
- (3) Goodwill must not be recorded as a company's asset unless it is gained by purchase, and should be amortised in accordance with the estimate of the directors and the boards of auditors; and
- (4) Debts should be valued at their realisable value.

In practice, prudence in asset measurement was investigated through a review of the alternative possible values for assets measurement. Accountants in the selected Libyan companies were provided with a list of the alternative methods of assets measurement based on an order from the highest to the lowest level of conservatism, as stated by Arpan and Radebaugh (1981) and were asked to select the most frequently used method in their companies.

As exhibited in Table (41), most Libyan companies tend to select methods that indicate a high level of conservatism. For example, in current assets valuation, 38 companies answer this question, 20 companies (52 per cent) use the lower of cost or market values, 16 companies (42 per cent) use historical cost, and only two companies (5 percent) were found to use market value. In the case of the high inflation witnessed in Libya both "cost value" and "lower of cost or market" can be seen as highly conservative and difficult to distinguish.

Table No (41) The most frequently used methods by companies in valuation of current assets

		F	%
a	Lower of cost (purchase price or production cost) or market value	20	52
b	Cost value	16	42
c	Market value	2	5
d	Others	0	0
T		38	100

Preparing financial statements on the basis of historical cost whilst experiencing inflation is another indication of high conservatism. Arpan and Radebaugh (1981) argue that “the use of historical cost reflects a degree of conservatism”. Despite the fact that the rate of inflation in Libya as mentioned before is considered high, all of the companies which were investigated were found to be adopting historical cost in their evaluation of fixed assets. As exhibited in Table (42), there is no evidence for any other methods being used in addition to the historical method.

**Table No (42) The most frequently used basis
for the valuation of Fixed Assets by companies**

		F	%
a	Historical cost	50	100
b	Modified Historical	0	0
c	Others	0	0
T		50	100

The prudence in assets measurement in Libya can also be seen in the assessment of the useful life of fixed assets by companies' management. In most of the company reports which were examined by the researcher, there are some fixed assets which are completely depreciated and have a book value of one Libyan Dinar, where these assets are still in full use by their company. The underestimation of the useful life of fixed assets can be seen as decreasing the value of these assets and will result in 'hidden reserves' in the companies' equity, which could be taken as a reflection of conservatism.

Second. prudence of income measurement. To investigate further the issue of conservatism in Libya, the study looked at income measurement. Accountants in Libyan companies were provided with a variety of accounting methods and practices that were related to income measurement. Accountants were asked to select the most dominant method that their company followed.

1- Inventory costing methods. Accountants were provided with a list of the alternative methods of inventory costing methods based on an order from the highest to the lowest level of conservatism, as stated by Arpan et al (1981). 36 companies answered this question. As presented in Table (43), the LIFO method is the most frequently used, at 50 per cent. FIFO is used by 30 per cent of the companies, five companies used a weighted average, and two companies used other unnamed methods. According to this criterion, there seems to be more of a tendency towards conservatism as using the LIFO method, particularly during inflation, leads to a reduction in the amount of generated income.

Table No (43) The most frequent Inventory costing methods used by companies

		F	%
a	L.I.F.O	18	50
b	F.I.F.O	11	30
c	Weighted Average	5	13
d	Others	2	5
T		36	100

2- Treatment of research and development costs. Treating this cost as an expense will result in a lower income for the financial period compared to the result of capitalising this cost. Table (17) shows 18 companies of the selected sample experienced these costs. Most of these companies, about 67 per cent, were found to be making a prompt charge of this cost to their current expenses, the rest capitalise

these costs. Again, according to this criterion, accountants show more of a tendency towards conservatism.

3- Charging methods of expenses (excluding depreciation expense). This measure was assessed through an investigation of the methods used by Libyan companies for expense recognition. Accountants were provided with a list of the alternative methods of charging expenses based on an order from the highest to the lowest level of conservatism and were asked to indicate the extent to which each of these methods were used by their companies (utilising a standard Likert scale with (1) 'very infrequently' to (5) 'very frequent'). As presented in Table (44), the most frequent method used is "expended as incurred" with an average score of (4.8) suggesting a low conservatism orientation. However, other methods "expenses as anticipated" and "expenses as paid in advance" were found to be used with average score of (1.8) and (2.2) respectively.

Table No (44) The most frequently used methods in recognition of expenses

		M
a	Recognised as expended when anticipated	1.8
b	Recognised as expended when paid in advance	2.2
c	Recognised as expended when legally obliged/incurred	4.8
d	Recognised as expended when paid later	1.5

4- Depreciation methods. The most frequently used methods for the depreciation of Fixed Assets were investigated. As presented in Table (45), most of the companies, about 78 per cent, use the straight line method, whereas declining balance was used by 22 per cent, and no company was found to be using the double declining method. Although companies in Libya are adopting the straight line method, considered to be a less conservative method for fixed assets depreciation, there is strong evidence that companies depreciate over a very restricted time period. According to a senior officer in the Libyan IPC, most public enterprises do not comply with the predetermined lives for fixed assets set by the Libyan tax authority, instead they use their own rates which are often higher than those of the tax authority. This is also

reinforced, when in most of the companies' annual reports, examined by the researcher, there are items of fixed assets which are completely depreciated and have a book value of one Libyan Dinar but are still in full use by their companies. The depreciation policies applied within the accounts are accelerated to reduce declared profit in the early years of the asset's life. This results in a lower declared profit and the taxable income will need to be adjusted by the tax authority.

**Table No (45) The most frequently used methods
in assets depreciation**

		F	%
a	Double declining balance	0	0
b	Declining balance	11	22
c	Straight line method	39	78
d	Others	0	0
T		50	100

5- Contingent liabilities and reserves. According to Sudarwan (1995), the greater the use of these accounts the higher the level of conservatism (see also Ainajjar and Volz (1991, p. 115). Reviewing companies' accounting reports in Libya indicated that the practice of contingent liabilities, provisions made against doubtful debts, and legal and discretionary reserves are widespread in all of the Libyan companies. This, in addition to the common practice in Libyan companies to have 'hidden reserves' which result mostly from the undervaluation of assets including the underestimation of the useful life of fixed assets.

Conservatism can also be inferred from the Libyan laws. For example, according to article 577 of the Libyan Commercial Code, each corporation is required to retain five percent of the annual net profit before tax as a legal reserve, with a maximum amount of 20 per cent of corporation capital. This is in addition to discretionary reserves, which, according to the LCC, each corporation has the right to stipulate its charter reserves taken from the annual net profits to be used for specific purposes. According to the UNDP/MDP Mission (1994), in Libya a company making profits is

required by law to maintain 60 per cent of its profit after tax, half in the central reserve and half as a return on investment. In general, it may be safe to conclude that there is a heavy use of 'reserves' in Libyan accounting and the cultural tendency toward conservatism in Libyan companies seems to be reinforced again by this criterion.

The evidence on issues discussed above, indicates that the weight of evidence in Libya shows accounting values tend towards conservatism. This is in line with Gray's hypothesis, that the higher a country is in terms of collectivism and the higher it ranks in terms of uncertainty avoidance and power distance, then the more likely it is to rank highly in terms of conservatism. According to El Fathaly (1977, P. 12), "the strong role of religion in a traditional Islamic society like that of Libya has produced a society with special features. Conservative attitudes have been predominant in every respect. People's values and behaviour have been a function of their religious background and attachment; hence, evaluation and acceptance on innovation and change has been subject to religion beliefs and notion".

Therefore, the location of the Libyan accounting system in regard to this accounting value of conservatism seems to be different from the location of Anglo Saxon countries. The implication is that an Anglo Saxon approach is not the most relevant to Libya.

8.4.4- Secrecy Versus Transparency in Libya

The discussion in chapter five indicated that secrecy implies a preference for confidentiality and the restriction of information to only those closely involved with management and financing functions. Arpan and Radebaugh (1981) state that the society's degree of secrecy directly affects the amount of disclosure an enterprise is willing to make in its external reporting, the greater the level of secrecy or distrust of outsiders, the lower the level of disclosure. Clearly, secrecy values in a society have an association with accounting practices, such as disclosure of accounting information. Thus, in measuring the degree of secrecy in any country, researchers tend to observe the degree of detail of information in financial reports.

Sudarwan (1995), for instance, measured the secrecy level in his country through variables such as: (a) the number of contents in financial reports; (b) the number of balance sheet items prescribed in the accounting standards of the country; and (c) the number of income items prescribed. Salter and Niswander (1995), on the other hand, measured the secrecy level in different countries using two variables. The first used Bavishi's study [1991] (CIFAR) which contains information on the inclusion or omission of some ninety items from the world's 1,000 leading companies in six categories. The second variable utilised an index of disclosure measuring the mean utilisation by audit clients of some fifty-six disclosure items.

The orientation on accounting values of secrecy in Libya, investigated through the level of disclosure, using an appropriate selection of the above discussed measures, such as:

1) Supplying financial statements to individuals who are not directly involved with the management of the company, can be taken as an indication of a tendency to lower level of secrecy. Table (25) reveals that the provision of financial reports by most companies in Libya is restricted to only a few users who are directly involved in the management of the company, such as the owners of the companies (Secretaries) and to those prescribed by law such as the Tax authority and Libyan Institute of Public Control. Other stakeholders who are not directly involved with the company's management such as government agencies, General Statistics Office, local community BPC, employees, consumers, suppliers, creditors, and society at large (e.g. through newspapers) seem to be ignored and have no access to accounting reports. This can be interpreted as a tendency towards secrecy.

2) Preparing financial reports covering a wide range of information, which reflects the needs of wider groups of users of accounting reports can be seen as indication of a high level of transparency. In this study a company's disclosure on a list of different aspects of interest to a wide range of users and which could be disclosed in financial reports and their enclosed documents was investigated. As presented in Table (26) there is very limited disclosure about most of the listed issues. The

importance of secrecy as a reason for the limited disclosure is reinforced by companies' accountants who disclosed limited information in Table 26, as they score relatively low, (average 1.4) about "The cost of producing this information" as a reason for preventing such disclosure.

3) Disclosing information about previous years as a comparison to the current year. Disclosing such information certainly helps the reader to have a clearer picture of a company's financial position and performance over time than otherwise. Therefore, failure to disclose information about previous years to compare to the current year could be interpreted as secrecy when the amount of information and its usefulness are more likely to be limited. Table (21) revealed that only a very small number of companies (12%) provide this information. Thus users of financial statements in Libya are stopped from having a complete set of information by which a company's performance can be evaluated.

4- According to Arpan and Radebaugh (1981), the effectiveness of an internal control system and the difficulties that auditors face in obtaining necessary support information, are closely related to levels of secrecy in any country. They state that:

"Internally, a high level of distrust makes it more difficult to implement a system of internal control and performance evaluation, because no one wants to have his activities scrutinised." (Arpan and Radebaugh, 1981, p.20)

The researcher investigated the existence and effectiveness of internal control systems in Libyan companies. Although most companies do have internal control systems, the effectiveness of these systems in general was found to be low. This is revealed through:-

i) Public accountants, by their involvement in auditing companies' accounting reports, are expected to be able to judge the effectiveness of the companies' internal control systems. Thus, auditors of companies' financial reports were asked, relative to their experience, the extent to which they thought companies had effective internal control systems. (utilising a standard Likert scale with (1) 'very effective' to (5) 'not effective at all'). The findings indicated that, there is general agreement

between auditors that the internal control system is not effective in most Libyan companies (with an average score of 1.6).

ii) Investigating the implementation of some of the internal control systems' tools such as; cost accounting, budget preparation, breakdown of total cost to variable and fixed costs, break-even point, standard costing and variance analysis, target costs, and economic order quantities for stock control. As presented in Table (27) there are very few companies who use these methods, which are generally considered important tools for the function of internal control systems.

5) Disclosing information regarding extra-ordinary items. As presented in Table (18), 36 companies answered this question. Most companies (approximately 60 percent) do not distinguish extraordinary items within the operating revenue and expenses and provide no disclosure about the items. Extra-ordinary events could have a strong influence on the real financial position of the company and its income in the financial period. Thus, making no disclosure about these items can mislead users of the company reports. This can be attributed to an orientation by those companies approaching secrecy.

6- Disclosure of information about the consequences of inflation on the companies' financial position and income generated. The rate of inflation is relatively high in Libya. Therefore, companies in Libya should provide relevant information in order to clarify the financial position and income generated. Investigating the extent to which companies in Libya respond to the effect of inflation, Table (23), shows that most companies have done little to present the real picture of their companies. No company was found to prepare financial statements on a basis other than an historical one. Only 28 per cent of the companies claimed that they disclose more information about the current value of their assets and generated income. No other methods in use were mentioned by these companies.

7- Disclosure about accounting policies within the notes to the accounts in the financial reports or in any enclosed documents. This includes disclosure such as: (a) disclosure about the valuation method for inventory; (b) disclosure about the valuation method for short term investments; (c) disclosure of information on other valuations methods which have not been implemented in both (a) and (b); and (d) disclosure of the depreciation methods that have been used by their companies. Disclosure of the above items in the financial reports will improve the users' understanding of the financial position and verify the accuracy of the income generated by the company. Also, disclosure of the above information helps users to verify the process by which the organisation recorded the relevant events (Arnold et al, 1994, p. 73). Failure to disclose information about the above matters results in presenting an incomplete picture of the company's financial position and can be interpreted as an indication of secrecy.

As indicated in Table 24, about 74 per cent of companies did not make any disclosure about the methods used in valuing inventory and about 72 per cent did not make any disclosure about the methods used in short term investment valuation. Furthermore, about 84 per cent of the selected companies did not make any disclosure about the methods which were not used in (a) and (b) but which may have been sensible alternatives. The findings also show approximately 54 per cent did not make any disclosure about the depreciation methods used by the companies. This presents the reader with an incomplete picture of the company's financial position and can be interpreted as an indication of secrecy.

8- The number and type of accounting reports that are prepared by a company will be *prima facie* positively associated with the level of disclosure in that company. Investigating the number of financial accounting reports that are published by the selected companies, as presented in Table 15, reveals that most companies prepare only the financial reports that are required by law e.g. Balance Sheet and Profit and Losses Accounts. Only 12 companies prepare statements of Change in Financial Position and 11 prepare Cash Flow Statements. A Value-added report and a summary of the profit and loss account are not prepared by any company. Therefore,

information disclosed by Libyan companies is relatively limited in regard to the unique needs of Libyan users.

9) Arpan and Radebaugh (1981) provide another criterion by which the level of secrecy can be measured. According to Arpan and Radebaugh (1981, p.20):

“Secrecy also affects the audit function, making it more difficult to obtain necessary support information, verification, and corroboration of the accounting data supplied by the enterprise.”

During interview, representative of LAAA who also work as public accountants indicates that the process of obtaining necessary information to verify some company's accounts in Libya, is often costly time wise, is met with ignorance and thus, data provided are usually incomplete. The representative of LAAA was asked his views on the process of obtaining the necessary information to verify some company's accounts, according to his experience in auditing the accounting reports of Libyan companies. He indicated that auditors in Libya often find this process difficult and long-winded.

One may argue that most companies in Libya have a stronger tendency toward secrecy than transparency. The immediate consequence of this is the low level of disclosure by companies in their financial accounting reports. This reflection of cultural orientation on accounting dimensions is in line with the prediction of Gray's fourth hypothesis. This brings into question again the issue of the relevance of the current accounting system to its environment. The implementation of an Anglo Saxon system in Libya is associated with a cultural dimension of low secrecy in a society with an orientation towards secrecy, and causes considerable concern with regard to relevance.

8.4.5- Cultural irrelevance and the limited role played by the current accounting system in Libya.

The relevance of the Anglo-Saxon accounting system in Libya is again questioned on a cultural basis. Its impact on the role of accounting in Libya, perhaps could be

manifested through all of Gray's accounting dimensions. For example, despite the fact that Libyan professional accounting is built on a relatively similar basis as that of the UK, and was left to develop, control and organise the profession freely with very limited intervention from the government, accounting values of professionalism were discouraged by Libyan culture. The Libyan accounting profession tends not to exercise individual professional judgement or maintain self-regulation and its role in developing and regulating accounting in Libya was found to be very limited. This has resulted in an unregulated accounting system with low quality of information (e.g. reliability and comparability). Compliance with legal requirements (explained by the Libyan cultural orientation on Power Distance and Uncertainty Avoidance) is seen to be highly important to accountants in Libya. As these laws are expressed in loose and general terms, and do not specify any accounting standards to be adopted, inconsistency in accounting information continues to be the main feature of the information provided and thereby affects its quality.

The low achievement of the Libyan accounting profession over a significant period of time in developing or bringing about changes which are evidently needed, may lead to the conclusion that developing an accounting framework and guidelines in Libya is unlikely, so long as a self-regulation approach is adopted. Perhaps the explanation for the effective lack of regulation by the profession is found in the cultural values (power distance and uncertainty avoidance) in Libya whereby regulation would be expected to come from government.

Flexibility, which according to Gray is the main feature of the UK accounting system, is found to be unworkable in Libya. Accountants in Libya fall back toward uniformity in practising their accounting policy and methods rather than making essential changes by which they stay in tune with their environmental changes. Accountants seem to put more emphasis on form over substance, as they pay more attention to meeting legal requirements and following previous procedures, with less attention to the relevance of the information provided to users in general (see Table 7). Consequently, the standard of quality and relevance of output information tends to be negatively influenced. The results demonstrate that uniformity is reinforced by

such cultural values as resistance to change and avoidance of ambiguity, despite the fact that accountants feel the need for change and are not restricted from changing or developing their accounting practices. Again, there is no evidence that this situation will change so long as the self-regulation approach continues.

Conservatism is also indicated to be relatively high in Libya in comparison to the UK. However, companies in Libya, as in the UK, are left relatively free to select accounting methods or practices by which assets and income can be measured. The results indicate that, companies in Libya tend to select the methods by which their financial performance appears to be weaker than is the case. Of course it is not always the best way for a company to be presented when users in general can be misled by this information. In Libya, unless the relevant measures are taken by which the opportunity to select alternative methods is limited, and managers' abuse of power can be prohibited, the quality of information provided is expected to continue to be low.

With regard to the secrecy dimension and its related accounting practice, the current empirical findings have revealed that companies in Libya tend to demonstrate low disclosure practice. This supports Gray's hypothesis and also reinforces the arguments about cultural orientation and secrecy put forward by Jaggi (1975) and Hofstede (1980). The usefulness of accounting reports is expected to be highly correlated with many factors, including the quantity of accounting information disclosed. The low level of disclosure in financial reports as well as the restriction of accounting information to only those who are involved in management in Libya, can be partly attributed to the prevailing values of uncertainty and accounting values of secrecy. Implementing a self-regulatory approach in countries with a secrecy orientation, such as Libya, is expected to lead towards lower disclosure and consequently, a reduction in the usefulness of accounting reports. As the delay in preparing accounting reports persists in a significant number of companies in Libya, despite the increasing number of accountants, this could be attributed to cultural values of uncertainty avoidance, as managers tend to delay publishing financial reports to limit the possible effects of these reports.

The above discussion suggests that the irrelevance of the accounting system adopted in Libya to its culture can provide a partial explanation for the limited role played by the current accounting system in Libyan development processes.

Investigating the differences between Libya and western countries in terms of religious values, organisational structure and management policy, is the subject of the coming chapter. The discussion in chapter nine looks at additional criteria for investigating the relevance of the UK accounting approaches and systems to Libya.

8.5- Summary

Having investigated some of the environmental factors which are suggested as having a strong relation with accounting, it is evident that significant differences exist between Libya and western countries, particularly the UK. For example, the UK is a developed country with a capitalist economy, and government intervention in the UK is relatively limited in *most of the country's activities*. *There is a large* sector of private investors. The capital market is well organised and advanced, working as a key source of funds for investment. As a result, the allocation of economic resources is highly dependent on market forces. On the other hand, Libya is considered a developing country, which is still engaged in developing its basic infrastructure. In Libya, a planned economic system with socialist-orientation is adopted and decision-making is concentrated in the hands of the central planning authority (UN, 1994). The Government plays a dominant role in most activities of the economy, including a significant role in industrial development via the provision of finance and other resources. The Government is continually intervening in the economy in order to achieve its development and growth aims. Furthermore, there is no capital market in Libya. Equity interests are financed mostly by the government, prices are established for the most part, not on the basis of the market mechanism, but by the government. The public sector in Libya dominates the economy, whereas the private sector is very small and the numbers involved are relatively few. Clearly, the government is the only dominant player in all economic decisions in Libya and therefore has different reasons for wanting to use financial reports.

Accounting in Libya could in some ways be viewed as having a more important or co-ordinating role than would be the case in a free market economy. Resource allocation, monitoring social and economic development plans, and the establishment of prices in Libya are all based on existing accounting reports rather than the mechanism of market forces. As a result, the central authority needs more information by which decisions can be made.

The relevance of the UK accounting system to the Libyan environment was questioned, as accounting in the UK has been oriented mainly to serve the needs of shareholders, potential investors, and creditors, who need information to determine the profitability and financial position of the company, leading accounting in the UK to be mainly oriented toward external financial reporting. The other users, including government and government agencies, receive less attention in the UK accounting system.

Cultural differences, in particular those between countries, are suggested as the main obstacle confronting the workability of the Anglo-Saxon accounting approach in Libya. Examining Hofstede's dimensions in relation to Libyan social values, shows low scores on the individualism dimension, high scores on uncertainty avoidance and high scores on power distance. This is different to the cultural values of the country whence the adopted accounting system in Libya came. According to Hofstede (1984), the UK and the US both scored high on individualism, low on uncertainty avoidance and low on power distance. The main characteristics of the UK accounting system, according to Gray (1988) and Perera (1989), are high on professionalism, more flexible, low on conservatism and low in secrecy.

Following Gray's hypotheses, the likely nature of the Libyan accounting system was expected to be more oriented towards statutory control, uniformity, conservatism, and high in secrecy. This is expected to be the case if the current Libyan accounting system had emerged and been developed as a result of its environmental interaction. Although Libya is seen as having adopted the Anglo-Saxon accounting system, the

findings of this study tend to support Gray's hypotheses. This is because, despite an imported Anglo-Saxon accounting framework, the underlying Libyan accounting values have been pulled towards orientations in line with statutory control, uniformity, conservatism, and low transparency. In many cases, the adopted accounting system in Libya does not reflect its cultural values. There is a significant contrast between Libya's cultural value dimensions and the Anglo-Saxon accounting system. So if the current accounting system had emerged and been developed in Libya by Libyans, expectations would be different from those now being witnessed. Having said so, it seems fitting to quote Baydoun and Willett's (1995) argument that:

"As environmental factors play an important role in the development of accounting concepts and practices, so it is quite possible that if developing countries had their accounting systems evolved independently they would have had a rather different form from any we now witness" (Baydoun and Willett (1995, p. 72)

According to the findings of this study, it may be true that the likely nature of the Libyan accounting system is closer to macro-uniform groups rather than the micro group supporting Gray's prediction. This finding is also in line with other classification studies. For example, the work of Mueller (1967); Seidler (1967); AAA (1977); Nobes (1983, 84) identified and classified within the macro uniform accounting group, countries (e.g., Brazil, Spain, Belgium and France) with characteristics of socialist and centralised economy as well as a broad social objectives, similar to the environmental factors that prevail in Libya.

Thus, the relevance of the Anglo-Saxon accounting system in Libya is again questioned on a cultural basis, and can partly explain the limited role played by the current accounting system in development processes.

**Chapter Nine- The Influence of Religion and
Organisational differences on the relevance of the
Anglo-Saxon accounting System to the Libyan
Context**

9.1- Introduction

The transferability of one country's accounting system to another is also expected to be subjected to the influence of religion and organisational differences in each country. Thus, chapter nine is divided into two main sections, the first section discusses, mainly theoretically, some aspects about the potential influence of religion, particularly Islam, on accounting. The second section discusses theoretically, with some empirical evidence, the influence of culture on organisational issues and its subsequent effect on accounting.

It is not the main purpose of this study to examine these issues in depth. However, it may well be that an examination of these issues reinforces evidence from the main part of the study which suggests the current "imported" Anglo Saxon accounting system is not consistent with the Libyan environment. Thus, the chapter examines each issue in turn to provide further evidence with which the transferability of the Anglo Saxon accounting system to a Libyan context can be evaluated.

9.2 - Western Accounting standards and Islamic Values

Religion, particularly Islam, is seen by some researchers, such as Gambling and Karim (1991) and Hamid and Clarke (1993), as one of the important factors that may have a strong influence upon accounting. An investigation of the relationship between accounting and its surrounding environment in a Muslim country is expected to be fairly limited without a reasonable understanding of Islamic values in general, and Islamic economic principles in particular. This can be related to the fact that to Muslims, Islam is more than a religion in that it provides them with principles and jurisprudence which cover all the fundamental matters in life, including business ethics.

Libya's population is 100 percent Muslim. Islamic values are more likely to have contributed significantly to the shaping of Libyan behaviour and attitudes, as well as

social and economic systems. Kaabur (1995, p. 28) argues that “despite the continuous change in the social structure and the way of life as a response to the change in the political and economic structure the Islamic values and beliefs are still deeply ingrained in the Libyan society”.

In order to facilitate an understanding of the relevance of western accounting to Libya, it is necessary to investigate some important aspects of Islamic values that may have an impact on the development of accounting systems in Libya. The first part is intended to briefly review Islamic principles with special reference to the economic system. The second part of this section reviews and discusses some further aspects through which Islam may influence accounting.

9.2.1- Islam: What does it Mean?

The word Islam is derived from the word '*Aslams*' which literally means 'complete surrender' to the will of Allah. It is the religion in which Muslims believe that Allah provides mankind with a framework in which to live. The uniqueness of Islamic law lies in the comprehensive nature of its principles, which have been valid through the ages for the good of the whole of mankind (Mannan, 1986).

Islamic law stems from the Holy *Quran* and *Sunnah*, which together are referred to as the *Sharia* (meaning 'course' or 'path'). These sources of Islamic law constitute the collection of rules of conduct for society as well as for the individual. Followers of Islam have to be 'obedient' to Allah and everything a Muslim does, including business dealings, must be in accordance with the *Sharia*. This is through the moral orientation of individuals, which encourages Muslims to pursue the universally determined ends of justice, goodwill and honesty.

9.2.2- The Economic Aspect in Islam

Although the main problems of any economic system revolve around infinite wants versus limited resources, the main differences occur in giving priority to their wants. In this regard, Mannan (1986, p .18-19) states that "so far as this basic problem of scarcity is concerned, there is hardly any difference between Islamic and modern

economics. If there is any difference, it lies in its nature and volume. That is why the main difference between these two systems of economics can be found with regard to the handling of the problem of choice". In the modern economic system of capitalism, priority is determined by the whims of individuals, with the pursuit of self-interest leading to the exploitation of man by man. In contrast, in socialism, priority is determined by the state through total nationalisation of the means of production. Where this is considered to be incongruous with democracy, it leads to exploitation of man by the state. Islamic economics however, gives priority to the moral values of *Sharia*, indicating that the first priority should be given to society.

According to Islamic belief, everything is owned by Allah. He is the only Giver of wealth and He is the only Depriver of it. Allah bestows wealth upon man, so it is man's moral duty to use it in accordance with Allah's directions, which govern all forms of property. These directions form the fundamental principles of Islamic economics.

9.2.3- The Principles of Islamic Economics

From the above discussion, one may infer that the uniqueness of Islamic economics is its worldly ethical values which dominate human economic activities. These ethical values are encouraged through the fundamental principles of Islam. Although in Islamic literature there seems to be no consensus amongst scholars, such as Siddiqi (1981), Mannan (1986) and Choudhury (1986), about determining specific principles of Islamic economics, it is necessary to briefly review those principles of Islamic economics which may be more relevant to the purposes of this study.

9.2.3.1- Tawheed and Brotherhood.

Tawheed literally means that all aspects of the universe (whether material, spiritual or belonging to the mind) make a unity by the will of the ALMIGHTY. The essence of this principle when applied to economics, teaches man how to relate and deal with other men in accordance with the will of Allah, which constitutes the source of values and becomes the ultimate end of human endeavour. Its two dimensions are

the relationship between Allah and man, and the relationship between man and man (Siddiqi, 1980,p.195).

Economic activities should be conducted on the basis of Islamic ethical values as developed from *Tawheed* rather than materialism which is usually only aimed at material profits. Alhabshi (1991, p.45) states in this regard that:

"Tawheed itself, emphasises 'equality, brotherhood, justice and benevolence, truthfulness and honesty, compassion and kindness. Priority of social good comes over that of the individual, acceptance of the principle of rule of consent, and decision through mutual consultation,....., emphasis on co-operative living and recognition of the right of the society to private wealth. These principles, although not exhaustive, are quite sufficient to provide a different perspective towards the analysis of man in his economic pursuits."

Choudhury (1986, p.8) explained the Islamic attitude toward modern economics as "(Tawheed) says that behind the working of an economy based on market exchange, the optimum allocation of resources, and the maximisation of utility and profits, there is a more fundamental and important matter: social justice, which always should be taken into account and also emphasises the cardinal principles of Islamic ethics".

9.2.3.2- Work and Productivity.

Participation in economically productive activities is the duty of every man and woman in Islam (Ishaque, 1991). The Islamic concept of economic welfare can be achieved only by increasing income resulting from increasing production, through the participation of the maximum number of people in the productive process. Increasing production and income are not the main goals of an Islamic economy. Improvement in the maximisation of satisfaction with minimum effort in regard to the injunctions of Islam on consumption is another goal (Mannan, 1986). Siddiqi (1981, p. 201) contends that:

" developmental efforts cannot become an end in themselves, nor can raising GNP be the only indication of 'growth' in the Islamic sense. "

The main concern of this principle is that of work, and compensation against the work performed. In Islamic economics the means of production are owned by Allah, and man transgressing this limit commits a form of exploitation. For instance, rent on plain land and share cropping are prohibited unless there have been inputs of labour or capital forwarded by the owner (AL. Qaradwi). This falls under the principle of equality and co-operation. Marginal revenue of the owner or labour wages are not the final goal in an Islamic exchange system, but the marginal utility of both the owner and labour is taken into consideration as the main objective of an Islamic exchange system.

9.2.3.3- Distribution and Equity.

Under the Islamic system, wealth should not be owned by a small number of people in society. According to the Quran everyone is entitled to share in the returns from that which he produces (Siddiqi, 1980). Hence, the distribution of wealth among all classes of believers has been emphasised by the institute of a 'property' tax known as Zakat, and others such as implementing laws of inheritance, which distribute the wealth of a man after his death among his children and near relatives. Riba (interest) is prohibited and the giving of benevolent loans free of interest is encouraged as payment of Sadaqah "alms" to the poor by those who have 'surplus' funds beyond their needs. The essence of this principle is to present the rights of society to redistribute private property. This further implies that there is allowance for a good degree of government intervention in the Islamic economy (Choudhury, 1986).

9.2.4- Some aspects of the Impact of Islamic Ethics on Accounting

The outcome of the previous discussion indicates that the structure, goals, and manners in which the economic system operates in Western economies are considerably different from those of an Islamic economic system. Economic and accounting systems are complementary to one another. The accounting system, which is an important economic instrument in measuring, managing, and controlling economic activities, will differ considerably in accordance with the economic system in which it operates. Hayashi (1989, p.61) states that "it (Islamic accounting) does

not merely describe accounting as what it is, but describes it as a part of the Islamic society. It is societal in spite of the fact that the subject of accounting is a business enterprise. In other words, Islamic accounting exists for the society. In this sense, it contrasts with the Western convention which exists for the business entity" .

Muslims have to abide by the *Sharia* in their social and economic matters. They deduce their accounting postulates and the objectives of financial reporting from *sharia*, whereas western systems try to deduce them from economic ones (Gambling, 1991). According to Hayashi (1987, p.90), Islamic accounting has one aim, that is, accounting should obey the teachings of Islam because of the oneness of Islam. In this sense, all Islamic accounting can be said to be normative. This suggests that if the accounting systems in Muslim countries had the chance to develop in accordance with the prevailing values of their religion, their accounting systems would be significantly different.

Although there are only a few studies on accounting in Islam, the influence of Islam on conventional accounting may be traced in the light of the consequence effect of Islamic principles on some of the principles and assumptions of a conventional accounting system. The next sections will discuss some of these aspects.

9.2.4.1- Zakat consequences on accounting

Zakat is an annual payment which is obligatory for all Muslims. Zakat is payable on all kinds of wealth (*mal*) which has the capacity to grow such as (1) gold and silver, including cash; (2) produce of land and fruits; (3) profits from trade; (4) minerals; and (5) wealth in general (Najmul, 1984). In any of these categories, for wealth to be 'zakatable' it must have the following characteristics:

- ♦ It must be the rightful property of the zakatpayer;
- ♦ It must be beyond the Nisab (exemption limit) which varies from one item to another;
- ♦ It must be free from debt;

- ♦ It must have the capacity to grow in value, or otherwise produce further wealth; and
- ♦ It must have been held for one whole lunar year;

The Zakat rate is fixed by the definition of *sharia*, though the rate is different according to the type of wealth and economic activities (Hayashi, 1989). All money which is put aside and not used for a whole lunar year has a zakat of 2.5 per cent levied upon it. In some cases it is an income tax: for arable cultivation, the tax is 10 per cent levied on the produce as soon as it has been harvested, while for the manufacturing industry, the rate is 10 per cent on net profit only. Otherwise it is a combined tax on net worth and net profit at a rate of 2.5 per cent. The majority of recent Islamic scholars and commentators such as Mannan (1986), Choudhury (1986), Najmul (1984), and Gambling (1991) are in agreement with business organisations being subject to combined zakat on net worth and on net profit as well.

Thus, *Zakat* is one of the central purposes of an Islamic accounting system, and accounting should provide information that enables business organisations to determine the amounts liable to *zakat*. Clarke et al (1993, p.45) state that "*Zakat* would render the traditional balance sheet derived under conventional western accounting practices inappropriate as a vehicle for Islamic financial information needs". For example, as *Zakat* is imposed on the real worth of assets at the time of calculation, the valuation of assets, especially working capital, should be evaluated at the net realisable value (Hayashi, 1989). Moreover, traditional conservatism concepts cannot be applied in certain practices, e.g., lower cost or the market method will not be accepted under Islamic accounting. Debts, bank notes and accounts received as part of working capital are subject to *zakat* which should only be evaluated at the net realisable price with specific bad debts deducted in the calculation of *zakat*, *only* if the company has real proof of bankruptcy (Hayashi, 1987). An allowance for doubtful debts is not deductible in Islamic accounting (Gambling, 1991).

The measurement of profit in Islamic accounting on the basis of capital maintenance is more likely to fit with the calculation requirements of *zakat*. When accountants in

Islam seek to determine the real growth in wealth, they should take into account holding profit and loss, distributable income based on cash-flow and adjusted for capital maintenance (Gambling, 1991). By using the capital maintenance approach rather than a revenue-expense approach, fixed assets and raw materials should be deducted from the company's net worth, as they are exempt from *zakat*, to leave profit-earning net working capital to be assessed under *zakat* (Najmul, 1984).

In Islam the non-personal entity is not liable to *zakat*. Instead, the owner is responsible for finding out the value of net assets. Islamic accounting should provide shareholders with the information that helps them to fulfil their duty. Asset depreciation, which is allowed as an admissible deduction for computing income for businesses as in western accounting, is completely ignored in assessing *zakat*, because it does not require the use of funds nor does it create a liability. Ignoring depreciation in Islamic accounting, will lead to capital erosion if another means is not found (Najmul, 1984).

As *zakat* is levied only on wealth acquired for trading (i.e. net working capital) and not on wealth acquired for utilisation (i.e. fixed assets), the traditional (going concern) assumption loses its justification in Islamic accounting. The main purpose of classifying assets in Islamic accounting is to do so according to their being subject to *zakat or not*, rather than on the basis of their liquidity.

The preparation of financial information for *zakat* challenges the periodicity assumption as the company's wealth is liable to *zakat* only after the lapse of one whole lunar year. Consequently, accounting statements are prepared for that particular period, showing the amounts on which *zakat* is levied.

9.2.4.2- Prohibition of Riba and its Consequence

Interest (*riba*) is prohibited in Islam because of potential exploitation and injustice which emerge wherever there is a guaranteed and fixed return to one party, but an uncertain and variable return to another. As a consequence, some of the issues within

the conventional accounting system will not arise in Islamic accounting. For example, as preferred stock is not acceptable under Islamic accounting, unlike common stock, some of the related accounting practices will not exist. Also, in contrast to practice in the West, the prohibition of interest in Islam has led Islamic accounting to avoid practices which entail discounting procedures invoking a time value of money concept, such as in the case of USA pension benefits (SFAS 87), amortisation of long-term debt (APB 12), assessing and reporting superannuating liabilities (SFAS 88), and interest on receivables and payables (APB 21) (Clarke, 1993, p. 44).

Islam provides the rate of profit, which is in turn determined by contractual percentage shares in an Islamic profit-loss-sharing (Mudarabah) as a replacement method to the interest rate (Choudhury, 1986). Raising funds through co-operation and partnership is encouraged by Islam, based on the sharing of profits and losses with justice and no exploitation of any partner. The choice between financing alternatives on the basis of which is the best financial return to owners as in the western finance system, would not be the case under Islamic financial decisions, as *riba* is prohibited and even interest free loans are discouraged. Most of the discounting-based explanations of the capital budgeting techniques used for project evaluation do not conform to Islamic principles, and nor does the use of discounting expected future cash flows to assess the likely recoverable amount of assets from their continued use. Moreover, the distribution of profit or losses is likely to be more straightforward under an Islamic accounting system as the proportion is agreed upon at the formation of the partnership.

9.2.4.3- The Islamic Responsibility and its Consequence

Joint responsibility and justice between the partners are the main features of Islamic business. Thus, partnership based on a fixed profit or loss would be in violation of justice in Islam. For this reason, prophet Mohammed (peace be upon him) forbade the partnership known as al-muzara'ah (share-cropping), when one of the partners (the owner of the land) takes a fixed amount of grain regardless of the real quantity of

the crop, Al-Qaradwi states that "He (prophet Mohammed) prohibited this because such a transaction is similar to usury or gambling; for if the farm produced less than the specific amount or nothing at all, one partner would still get his share, while the other would suffer a total loss, which is contrary to justice" (Al-Qaradawi, 19 p.272).

Islam has always insisted upon close personal responsibility among the members of any organisation. This leads to unlimited liability for the whole of an organisation's debt by the partners. As a result, the concept of a separate economic entity becomes unacceptable. Abdullah (1986, p. 222) contends that "the history of Islamic *Fiqh* (jurists) has not identified the firm as a legal entity whose obligations are separate from its owners, nor has it ever recognised that the firm has a separate financial obligation". It is argued that the majority of schools of Islam do not accept any kind of partnership with limited responsibility and separation between the owners and the legal entity (Gambling, 1991).

According to Islamic belief, each Muslim is responsible and accountable for all of his deeds, wealth, knowledge, time etc. For example, each Muslim is accountable for his wealth in terms of how he has acquired it, and what he has done with it. One consequence of this is that managers and owners will try to discharge their responsibility by meeting Islamic rules in conducting their affairs. Some of the rules specified by *Sharia* about governing private ownership and the use of property are: its continuous utilisation thereof; payment of the *Zakah*; beneficent use; care not to have its use harm others; use must be neither parsimonious nor prodigal; and the benefits due to the owner are permitted (Mannan, 1986, p. 55-47).

The above matters have potential consequences on the role of accounting in Islamic countries. Accountability and social responsibility become primary objectives of Islamic accounting. This is consistent with the claims of some researchers that the role of accounting should be extended to more than just providing information. Cohen (1978, p.3) argues that "providing information is not the only function of accounting, the achievement of accountability is also equally important and a

fundamental function which distinguishes accounting from other information systems in an organisation or in a society". To meet this responsibility companies should provide complete and relevant information to those to whom they are accountable.

Under Islamic belief, the accountee groups that have a bond of accountability are wider and not restricted to owners and investors, but include for example, consumers, employees, government, the local community and society at large. This is also consistent with the issues of wider social disclosure discussed in chapter three.

One of the other potential consequences of the issues of responsibility under Islamic religion is that the responsibility of shareholders in a western financial system, which gives them the privileges of owning the company's assets without incurring the responsibility for its debts beyond the initial capital provided, is not acceptable. In fact, the accounting assumption that any business organisation is an entity separable from its members is not readily accepted by Muslims. Shareholders and managers have personal responsibility before Allah, thus their responsibility is unlimited. Hayashi (1989, p.104), on this subject states "... the unlimited company should fulfil all of its liabilities, no matter how much they exceed the value of the partner's share of the company's assets. However, according to the liabilities, all the Islamic laws define any kind of partnership as unlimited". This responsibility encourages shareholders and managers to be aware of all issues affecting their organisation's activities. The disclosure in a conventional accounting system would not be adequate to define this responsibility, when the former is expected to include in addition to economic matters, a good deal of information on social and personal matters.

9.2.4.4- Islam Discourages Ambiguity and its consequence

According to *sharia*, Islam discourages ambiguity and risk taking, as they are a kind of gambling that is prohibited explicitly in the *Quran*. Gambling (1993, p.123) states in this regard that " Muslim business people may be expected to give considerable thought to the risks involved in what they plan to do . Neither fatalism nor the sort of 'confidence' which leads some Christian fundamentalists to pick up rattlesnakes has

any part in Islam". One of the impacts of this is on the financial partnership (*sharika* mal), 'capital' contributed by the partners must be formed only with cash, because if it were to consist of goods, the exact value of partnership shares would be a matter of conjecture and ambiguity. As a result, some valuation disputes which occur within western economies should not arise in Islamic accounting.

Issues of responsibility and the discouragement of ambiguity in Islam require leaders and managers to consult their members before any decision is taken as decreed by Allah in the *Quran* (*surah* 3 verses 159) "And consult with them on the conduct of affairs". This requires members to be fully informed on social and economic matters relating to their organisation. Allah says in the *Quran* (*surah* 42, verses 38) that "they conduct their affairs by mutual consultation". Of course, accounting will have a significant role to play in this regard.

In general terms, the above discussion revealed that under Islamic belief, purely monetary profit is not the final goal in reaching business decisions. Thus, in Islamic accounting, issues such as social responsibility and accountability are more dominant than in conventional accounting. This is reinforced by Hayashi (1987, p. 71) who argues that "Islamic accounting thinks of the society before the business enterprise while conventional accounting thinks of the individual profit before the social profit".

Islamic accounting also has different objectives to those of the west. It is society-oriented and issues of social responsibility and accountability are an essential part of Islamic accounting. According to Hayashi (1987, p. 44) "Islamic accounting is considered to be a part of the society and it cannot be separated from Islamic law". This can also be interpreted to mean that under Islamic accounting, government intervention is essential.

In brief, Islam provides Muslims with a code of ethical, commercial and personal behaviour which is, in many aspects, different from the western capitalist code. Whether Islamic societies are currently structuring their business affairs in strict

accordance with the dictates of their religion is not the point. Rather it is the extent to which the gap between the western and the Libyan environment is widened or narrowed. Clearly, Islam has the potential for influencing the structure, underlying concepts and the mechanisms of accounting in Islamic societies (Clarke, 1993). In many cases, these influences appear to increase the gap in environmental factors and the objectives of accounting between Islamic and western countries, calling into question the relevance of Anglo Saxon accounting to a Muslim country such as Libya.

9.3- Organisational differences and the relevance of Anglo-Saxon accounting system to Libya

Information systems (including accounting systems) are highly influenced by the organisational structure and management systems (Mueller et al, 1987). Understanding the relationship between culture and organisation could partly explain some of the reasons behind accounting differences between countries. This could in turn add some insight into the reasons for the failure of developing countries to implement successfully the accounting systems of developed countries. This section therefore investigates some aspects of the influence of culture on organisational structure and management practices, and their consequent effect on accounting.

As mentioned earlier, given the focus of this research on accounting, this section is not seeking to review differences in management between countries in depth. However, it will attempt to gain some insight into how organisational aspects of culture may have an impact on the transferability of an Anglo-Saxon accounting system to the Libyan environment.

9.3.1- Culture and organisation

The recent increasing dominance of multinationals and the globalisation of world markets, as well as the success of Japanese management in the past few decades, has contributed to the revival of interest in cross-cultural studies of organisations and an increased awareness of the cultural contexts of business organisations (Tayeb, 1994).

Smith (1992, p. 39) writes that:

" the concept of culture has recently proved attractive not only to those who seek to understand world-wide variations in organisational behaviour (e.g. Ronen, 1986; Adler, 1990), but also to those who attempt to delineate contrasts between different organisations in the same part of the world".

Consistent with Smith (1992), Adler (1990, p. 33) argues:

" for years people have thought that organisations were beyond the influence of culture and that they were only determined by technology and task. Today we know that work is not simply a

mechanistic out-growth of either technology or task. At every level, culture profoundly influences organisation behaviour."

According to Tayeb (1994) the major strength of the cultural perspective as a whole is its recognition of (1) the fact that cultural values and attitudes are different in degree at least if not in absolute terms in some cases, from one society to another, (2) the fact that different cultural groups behave differently under similar circumstances because of the differences in their underlying values and attitudes, and (3) the important role that culture plays in shaping work organisation and other social institutions.

The definitions of culture looked at earlier, suggest that it is a collective programming of mind consisting of values and norms shared between a group of people, which can be found at national and organisational levels. At each level certain values and norms are shared by most of its members. For instance, national culture is expressed by the values and norms that are shared by most people of the country, whereas organisational culture, which is considered as a subculture of the national culture, is expressed by the values and norms that are shared by its members in addition to their national values.

In the organisation literature, two levels have attracted most attention: the influence of the concept of national culture upon organisations, and the concept of organisational culture itself. Although there is a general consensus about the influence of culture on managerial and organisational behaviour, there is a dispute with regard to whether they are influenced by the national culture, the organisation culture or both. Adler (1990, p. 58) argues that:

"Unfortunately, our understanding of organisation culture has tended to limit rather than enhance our understanding of national cultures. Many managers believe that organisation culture moderates or erases the influence of national culture. They assume that employees working for the same organisation-even if they are from different countries-are more similar than different. The belief that national differences are only important in working with foreign clients, not in working with colleagues from the same organisation. Does organisation culture erase or at least diminish national culture?

Surprisingly, the answer is No; employees and managers do bring their ethnicity to the workplace."

The focus of this study is concerned with the environmental factors at a national level, and as such, only those aspects felt relevant to the relationship between accounting and national culture and organisational structure will be reviewed.

9.3.2- National Culture and Organisation

The increasing dominance of multinational companies and globalization of world markets over the past decade has resulted in recognising managerial variations across culture and has highlighted the need for understanding management practices across national boundaries (Kovach, 1994). Several studies have been carried out in order to understand world-wide variations in culture and different managerial aspects, (e.g., Haire et al, 1966; Lammers and Hickson, 1979; Ronen, 1986; Adler, 1990; Hofstede, 1980, 1985). Most of these studies propose that companies who do address the question of culture will gain substantial advantages in terms of understanding and appreciating the influences of culture on the functioning of organisations, rather than allowing it to become an obstacle to management development. In this regard, Adler (1990, p.60) argues that:

"To manage effectively in a multinational or a domestic multicultural environment, we need to organise the differences and learn to use them to our advantage rather than ignoring them or allowing them to cause problems."

Organisations in one country are likely to be subjected to the same influences of national culture, and so studying the influences of national culture on organisations in one country will not be objective. Researchers therefore focus on an international comparison of strategies and management approaches from the perspective of "people and culture" to examine the influence of national culture on organisational functioning.

In an attempt to explain the differences between organisational behaviour in different countries, Kluckhohn and Strotbeck (1961) suggested six basic dimensions describing the cultural orientations of societies. Adler (1990) uses these dimensions,

which built upon value orientations in countries and related them to the differences in different management aspects between the USA and various other countries. These six dimensions are as follows; (1) People's qualities as individuals; (2) People's relationship to their world; (3) Personal relationships, individualism or collectivism; (4) Active: doing or being; (5) Time: past; present, or future; and (6) Space: public or private.

An alternative approach to the study of the influence of national culture on an organisation's structure and management practices is the empirical study conducted by Hofstede (1980). He concludes that an organisation is culturally bound and each person with a certain culture will prefer a particular type of organisation structure that is consistent with their values and meets their needs. Hofstede's study showed large variations around the world within the culture of a single organisation. The study yielded four basic dimensions which were discussed earlier in chapter four. These dimensions may provide a rational explanation for the differences in the structure and management practices between countries.

According to Sabri (1990), the Hofstede study (1980) has provided management researchers with the tools for making inter-cultural comparisons, based on differences among cultures at national levels, and the consequences of differences on the ways in which organisations are structured and managers behave. The use of Hofstede's dimensions in studying national cultural differences is also supported by Smith (1992) who argues that despite the criticism of Hofstede's dimensions on a variety of grounds, they continue to provide the best available basis for thinking about cross-national differences in many aspects of organisational performance.

9.2.3- National Culture and differences in organisation and management practice

Although similar types of organisations may be created for the same reasons in different countries, the ways in which they are structured and operated may differ from one country to another, because in all their operations, organisations are affected by their environment (Hicks and Gullett, 1981). Different societies produce

different types of organisation and different participating groups with different objectives and different views about the value of contributions and inducements (Arnold et al, 1994, p. 13).

It is important to note that many writers have examined a variety of organisational structures and have sought to identify different types. By classifying structures according to some criteria, they have presented either a theoretical typology or an empirical taxonomy (Lammers and Hickson, 1979). One of these was the classification made by the Aston Group (Pugh, Hickson, Hinings and Turner, 1968,1969). This was an empirical study which resulted in an empirical taxonomy of organisational structures based on two primary dimensions of the structuring of activities and the concentration of authority. Based on these dimensions, four main types of organisations were designated. As presented in figure 7 these are; Full Bureaucracy, the main feature is to score high on both centralisation and structuring of activities; Personnel Bureaucracy, which shows high centralisation and low structuring of activities; and Workflow Bureaucracy, which is characterised by low centralisation and high structuring of activities. The Implicitly structured organisation represents low scores on both centralisation and structuring of activities.

Figure (7) A two dimensional taxonomy of work organisation

High

Personnel Bureaucracy	Full Bureaucracy
Implicitly structured	WorkFlow Bureaucracy

Low Structuring of activities High

Source: based on the Aston study an empirical taxonomy of structures of work organisation, Administrative Science Quarterly, vol. 14, 1969, p.117.

According to Hofstede (1980), the combination of Power Distance and Uncertainty Avoidance dimensions in any country is likely to be the most influential dimension on organisation structure. For instance, in societies with high Uncertainty Avoidance, the structuring of activities imply normalisation and specialisation, with employees being more dependent on their superiors and superiors on their superiors, indicating greater centralisation of authority in the organisation. All of these no doubt will lead to the creation of a specific form of organisation.

By relating the two Aston dimensions (structuring of activities and concentration of authority) to two culture dimensions, Uncertainty Avoidance and Power Distance, Hofstede (1980) provides different preferred Aston types of organisation and different implicit models that best fit some national cultures.

As presented in Figure (8), they are seen to be congruent with the type that their people prefer. According to Hofstede, Latin and Mediterranean countries (including Libya) plus Japan, score high on Power Distance and Uncertainty Avoidance. Thus, full bureaucracy is the preferred type of organisation in these countries. Relationships among people and work processes are rigidly prescribed through formal rules and laws, or tradition. This is expected to be in accordance with the type of organisations in Libya. On the other hand, implicitly structured organisations are preferred in countries with small Power Distance and weak Uncertainty Avoidance such as the UK and the US.

Figure No (8) Connotations of the four combination of power Distance and Uncertainty Avoidance levels

<p>(4) Small Power Distance Weak Uncertainty Avoidance countries: Scandinavian, Nether lands Organisation type: Implicit structured Implicit model of organisation: market</p>	<p>(1) Large Power Distance. Weak Uncertainty Avoidance countries: Southeast Asian Organisation type: Personnel Bureaucracy Implicit model of organisation: family</p>
<p>(3) Small Power Distance Strong Uncertainty Avoidance countries: German speaking, Finland Organisation type: workflow Bureaucracy Implicit model of organisation: well oiled machine</p>	<p>(2) Large Power Distance Strong Uncertainty Avoidance countries: Latin Mediterranean, Islamic, Japan, some other Asia Organisation type: Full Bureaucracy Implicit model of organisation: pyramid</p>

From: Hofstede (1984), P.216.

The study now focuses on Hofstede's dimensions in an attempt to highlight some of the cultural influences on organisational structure and management practice in Libya, as well as the consequent impact on accounting systems.

1- Power Distance dimension. Using this dimension, Hofstede found significant differences across countries in the ways of handling inequalities among people. Organisations, as a result, also differ in accordance with a society's dominant orientation. Hofstede contends this inequality inside the organisation is inevitable and functional, and it is usually formalised in a hierarchical superior-subordinate relationship. Differences occur in the extent to which less powerful members accept the unequal distribution of power inside the organisation (See Table No. 46). For instance, in countries with most informality and low power distance (e.g. Austria, Denmark), employees are allowed to carry out their jobs in the way they think best, and they expect to bypass their superiors frequently in order to do their work. Moreover, employees are seldom afraid to disagree, and expect to be consulted before decisions are made. In countries with high power distance (e.g. Malaysia,

France, Panama, and Philippines), employees do their jobs in the particular way required by their bosses. Employees and superiors consider any process of bypassing the latter as insubordination. Employees are afraid to express any disagreement with their bosses, and prefer to work for managers who take both decisions and responsibility.

Table No (46) Differences between employees' behaviour in low and high power distance societies

In low power distance countries	In high power distance countries
Parents put less value on children's obedience	Parents put high value on children's obedience
Managers seen as making decisions after consulting with subordinates	Managers seen as making decisions autocratically and paternalistically
Managers more satisfied with participative superior	Managers more satisfied with directive and persuasive superior
Managers like seeing themselves as practical and systematic; they admit a need for support	Managers like seeing themselves as benevolent decision makers
Employees less afraid of disagreeing with their boss	Employees fear to disagree with their boss

Source: Hofstede (1984, p. 92)

It is evident from the management literature in Arab countries that Power Distance has a strong influence on management practices, particularly decision-making. Arab countries in general score high on power distance. El-Salmi (1995) finds that centralisation is the general orientation of many Arab managers, the main reason being that management hierarchies are greatly instilled in the manager's value systems. His argument is consistent with theory X when he states that centralised Arab management leads to tight control systems which help to assure top managers that all subordinates are complying with rules and regulations. According to Al-Faleh, (1982) the Power Distance that exists between the top and bottom levels of management explains why decisions can be pushed upwards and the participation of lower levels is minimised with subordinates acting with deference and obedience in the formal hierarchy. Bjerke and Al-Meer (1993, p. 31) point out that although the Islamic/Arabic custom and tradition of consulting partners, friends and relatives, the open-door policy among Arab managers is conditional, with only a few "selected"

people being consulted, and managers experiencing little opposition from their subordinates.

The management features of Libya are no exception to other Arab countries. The prevailing management style in Libya is "authoritarian" resulting in high centralisation of decision-making and very limited participation from the bottom levels (UNDP/MDP Mission, 1994, p.13). El Fathaly (1977, p. 10) argues that decision making in a traditional society like Libya is highly authoritative. Kaabur (1995) also investigated the centralisation of management decision making in Libyan companies. His findings reveal bureaucracy with highly centralised decisions to be their main feature, despite government efforts to encourage employees to participate in decision-making processes. Another study conducted by the Industrial Research Centre (1978) on management efficiency and productivity in a number of Libyan companies revealed a definite reluctance on the part of top management to delegate appropriate authority to their subordinates.

Managers in Libya prefer to have employees conduct their jobs in precisely the way that they require. In order to gain their bosses respect, employees are expected to carry out their jobs in the way required by their boss. Accountants are employees and are also expected to be influenced by the prevailing dimensions within a society. There is no complete, recognised, accounting system that provides details of the requirements of most company managers in Libya. However, accounting practices implemented within a company over a long period of time can come to be perceived as meeting management requirements. Complying with this requirement can be seen by accountants as a means to gain the approval of their superiors. Evidence supporting this emerges from the answers given by accountants to the question regarding the guidance they follow in preparing their accounting reports. "Following the companies' previous procedures" is a dominant answer (see Table 7). This is reinforced when the same accountants were asked to rank some of the suggested reasons behind not making any significant changes to their accounting systems over a long period of time. A lack of encouragement from management was one of the main reasons given (see Table 40).

Another way in which Power Distance may influence accounting is that accountants may prepare accounting reports and disclose information in response to the type of superior/subordinate relationship. Hofstede conjectures that countries which display large Power Distance develop accounting systems that serve the aims of the power holder(s) through the accommodation of figures that support and justify the decision of the power holder(s) in order to present authority in a desirable image. One of the senior accountants interviewed in this research, disclosed that his company was making a loss, however, the accountants within the company were responding by manipulating the accounting methods to cover up losses and to leave the management team untouched by criticism. Naturally, the accountant provided this information on a strictly confidential basis. This reaffirms Hofstede's proposition.

2- Individualism vs. Collectivism. The influence of this dimension on organisational behaviour is similar to Adler's explanation of the personal relationship dimension. Individualism distinguishes between countries in which employees see their individual identity as determined by their own continuing individual choices as to how to act. In collectivist countries identity is collectively defined, that is to say it is defined by one's obligations to the group to which one belongs. As presented in (Table 47) this argument is enforced by Hofstede (1984), who argued that in collectivist societies, personal relationships prevails over the task and should be established first. In an individualistic society such as Britain, the task is supposed to prevail over any personal relationship.

The criteria for decision making are also influenced by this dimension. For instance, in an individualistic society most decisions are usually made on market value and members of organisations are controlled more through an internal pressure such as guilt. Decisions in a collectivist society are usually made not only on the basis of market value. Social relationships, loyalty and nepotism have a significant influence on the decision-making process. Members of a society and organisations are controlled through the external pressures of social responsibility and shame. As

market value is closely linked to accounting data it can be inferred that this reduces the importance of accounting.

Table No (47) Differences between employees' behaviour under individualism and collectivism societies.

In low individualism countries	In high individualism countries
Importance of provisions by company (training, physical conditions)	Importance of employee's personal life (time)
Large company attractive	Small company attractive
More importance attached to training and use of skills in jobs	More importance attached to freedom and challenge in jobs
Managers aspire to conformity and orderliness	Managers aspire to leadership and variety
Managers rate having security in their position more important	Managers rate having autonomy more important
People thought of in terms of in-groups and out-groups; particularism	People thought of in general terms; universalism

Source: Hofstede (1984, pp. 166-7)

El-Salmi (1995), in regard to decision making in Arab countries, states that “due to several reasons, some cultural and some political..... Decision-making is almost a neglected area, and decisions are not usually based on firm grounds of research results and information”. This seems to be the case in Libya. An example of this was revealed by the United Nations Mission (1994) when companies in Libya were found to employ people on the basis of their relation to managers or members of the company rather than on the basis of their experience or qualifications. Kilani (1988, p. 270) also noticed that personal relations and family ties play a major role in choosing the members of the committee (management), so creating many management problems. In many other ways, the influence of this dimension on the decision making process can be seen in Libya. For instance, as discussed earlier, pricing decisions, are largely built on the basis of social needs rather than profitability (UN, 1994, p. 8), and the location of many companies or branches is selected in many cases on the basis of collective social responsibility.

This is not to say that information provided by accounting reports for decision making is worthless. The information needs to be seen in the light of differences that exist between the two orientations (individualism and collectivism) , and to be considered in developing or adopting a relevant accounting system.

One of the main differences between an individualistic society and a collectivist society is the final objective of a business enterprise. An individualistic society will seek to maximise the individual's returns as the final objective role (Ueno and Wu, 1993, p. 22). A collectivist society pursues profit but not as the final objective, and social welfare is more important. This observation is reinforced by Islamic values and by what managers perceive as the main objectives of their companies in Libya. As discussed in chapter eight, maximising profit is not the primary objective of companies. Meeting social needs is highly important for these companies. Thus, providing information restricted mainly to monetary profit will not give a complete indication of the performance of these companies. Information about meeting both social and profit objectives is needed to allow for better evaluations.

According to Ueno and Wu (1993), in an individualistic society, managers seek their own self-interests and are eager to maximise their own opportunities for advancement. Managers, therefore, have a greater need for full disclosure both to clarify the situation and to assure themselves that everyone explicitly understands the organisation's goals and his/her role (ibid). In a collectivist society such as Libya, however, managers' self-interests are pursued through the interests of their people (internal, such as employees, or external, such as friends and family). According to El Fathaly (1977. p. 9), the individual, in a traditional society like Libya, subordinates his personal interests to those of his family and considers himself to be a member of a group whose importance outweighs his own.

Hofstede (1984) argues that in collectivist societies (e.g. Arab countries and West Africa), people accept that a job will invade their private life. But they also expect the employer to take account of family problems and allow time to fulfil family duties. This is reinforced by Muna (1997, p. 449) who asked 52 Arab executives how

they viewed their role in the organisation and their view of their employees expectations of them. The findings indicate 44 per cent described themselves as the *chief executive* of their respective organisation (by using a variety of terms to describe this chief executive role). The other 56 per cent of the respondents perceived their organisation as a *family*, and they described their roles using familial terms (head of a family, their role as father).

This suggests that employees tend to perceive managers as some sort of father figure. As a result, managers may feel they do not need to disclose very much information to justify their actions.

As the issue of accounting reports is a means of communication between managers and their internal and external users, and are prepared by accountants who are also employees, accounting reports cannot be socially and culturally free. Accountants in Libyan companies are left with unspecified accounting standards and regulations, and, as such, they might do their jobs with a high concern for keeping their manager's credibility untouched by criticism.

3- Uncertainty Avoidance. According to Hofstede, in strong uncertainty avoidance cultures (e.g. Japan, Greece), people feel the need for clarity and order, and feel threatened by ambiguous situations. In these societies, law and regulations are seen as a way of limiting uncertainty. As presented in Table (48) this process applies to organisations as well, where they function according to numerous rigid detailed rules and regulations. Power holders feel very uncomfortable in ambiguous situations and try to avoid uncertainty by a process of standardisation. In Japan for instance, organisations avoid uncertainty by emphasising meticulous forward planning and having long perspectives and more structured decision-making procedures, with a strong desire to avoid risk and provide greater career stability. By contrast, in weak uncertainty avoidance cultures (e.g. Denmark, Hong Kong, Singapore), uncertainty is inherent in life and easily accepted. People are more willing to take risks, and are not afraid of ambiguity. This is expressed in organisational behaviour in these cultures by less structured decision-making procedures and risk taking is both expected and

encouraged. Employees are expected to work for the organisation for much shorter periods.

Table No (48) Differences between employees' behaviour under low and high uncertainty avoidance societies

In low uncertainty avoidance countries	In high uncertainty avoidance countries
Less emotional resistance to change	More emotional resistance to change
Loyalty to employer is not seen as a virtue	Loyalty to employer is seen as a virtue
Preference for smaller organisations as employers	Preference for larger organisations as employers
Rules may be broken for pragmatic reasons	Company rules should not be broken
Conflicts in organisations are natural	Conflict in organisations undesirable

Source: Hofstede (1984, pp. 132-3)

El-Salmi (1995, p. 343) states that "standardisation of organisational pattern, system of operations and regulations is a general feature in Arab government organisations and to a noticeable extent in public sector business enterprises. Rigid organisational structures, inflexible rules and regulations and outdated patterns of planning and control, are traits present in many Arab management practices". Libya's Islamic ethics reinforce a high score on Uncertainty Avoidance. This has influenced management practices in many areas. It was not surprising to find companies in Libya using high standardisation and formalisation procedures (i.e. documents and rules). According to the UNDP/MDP Mission (1994, p. 13), in reality the management process, organisation structure and operating procedures and forms are complex and unclear. In many cases, they are also unnecessary. Examples are seen in the approval process for plans and budgets. Managers have no desire to take risky decisions, so they tend to rely on standardised procedures.

According to Hofstede (1984), managers in a high uncertainty avoidance society feel high stress in unstructured situations and therefore attempt to eliminate or reduce the unpredictability of the behaviour of their subordinates by setting procedures and rules. Employees are also expected to prefer to work in places where their job is regulated in detail by law. In general, the preference for regulations may be reflected in the accounting reports and disclosure practices, in terms of structure and uniformity.

The evidence in Table (36) reinforces this view for Libya. Accountants in the selected sample were provided with the two main approaches to accounting regulation (i.e. self regulation and the statutory regulation approach) and were asked to indicate, on the basis of their experience, the approach they thought more suitable for developing accounting in Libya. Table (36) shows there is general agreement between most company accountants; 72 per cent see the statutory approach as more relevant for developing accounting in Libya. Managers were asked about the main reasons behind the preparation of their company's financial reports and (utilising a sliding scale of importance ranging from (1) 'not at all important' to (5) 'very important'). As indicated in Table (6), complying with the countries' laws and regulations has the highest ranking amongst the other listed reasons, (4.34) suggesting this is highly important.

In Libya, accounting reports (forms and contents) are found to be standardised to the extent that they do not provide information beyond what is required by law. Rules and protocols within organisations are expected to be different from one society to another. This may result in different requirements regarding accounting reports and disclosure practice.

4- Masculinity and Femininity. In masculine cultures (e.g. Australia, Italy) performance is what counts: money and material standards are important. In feminine cultures (e.g. Sweden, the Netherlands) people and the environment are important and service provides the motivation. According to Hofstede (1991), masculine and feminine cultures create different types of 'management hero'. The masculine manager is expected to be assertive and decisive. He is the only decision-maker looking for facts rather than a group discussion leader. The manager in a feminine culture is less visible, intuitive rather than decisive, and accustomed to seeking consensus. In a masculine culture, employees place stress on equity, competition among colleagues, and performance, whilst in a feminine culture stress is placed on equality at work, solidarity, and quality of work life.

As accounting reports and disclosure practice have important roles in determining the profit or loss realised by the company, this dimension may be reflected in the accountant's choice in reporting and disclosure practices. Therefore, the differences between the Libyan and the UK culture in this dimension, suggest different requirements on accounting reports and disclosure practices in both countries.

9.2.4- Organisation and Accounting system

It is argued that decision-making is the key issue in the success of any organisation in achieving its objectives. This is because effective decisions are expected to enable companies to achieve their objectives in an efficient manner and to provide a means of establishing working systems of operation and control.

A decision follows a number of distinct stages. The effectiveness of any decision is expected to be associated positively with the effectiveness of the information system that has been implemented by the organisation. According to Arpan and Radebaugh (1981), any large organisation, domestic or multinational, requires the collection, analysis, and storage of a tremendous amount of information for its own use and for reporting to others. They add that "the information system (including accounting system) has to be suited to the structure and philosophy of the firm. For example, if a firm operates through a highly decentralised structure, its information and control requirements will be different from those of a highly centralised firm" (Arpan and Radebaugh, 1981, p. 293). According to Horngren (1972), the design of a system (including the accounting system) and the design of an organisational structure are really inseparable and inter-dependent. Horngren (1972), in his argument about the relationship between control systems and organisations' development, also states that "organisations tend to develop from inter-dependent, closely knit sections into diversified, autonomous operating units. As these changes occur, so to must the methods of controlling them, which must grow in complexity as firms do". Accounting information is an important subset of more general management information. The design of an accounting information system is evidently influenced by organisational design, so it is not surprising that theories of accounting

information systems design have developed in parallel with organisational theory (Emmanuel et al, 1990).

Apart from the accuracy and reliability of the information system, the manner in which information is presented may affect its usefulness for planning purposes. This observation is also confirmed by Mueller et al (1987) when they reveal that "organisational difficulties arise when management information systems are not structured in parallel with the organisation as a whole. Such disparity is likely to cause major inefficiencies and ineffectiveness for the prevailing management information system-and possibly destroy its validity altogether" (Mueller et al, 1987, p. 6). This is reinforced by the earlier work of Harrison (1972, p. 123) where he argues that "the power-oriented organisation is not well adapted to flexible response and effective information processing in such environment. Since decisions are made at the top, the information has to pass through many people who screen out the "irrelevant" data. Moreover, some may distort the message to their own advantage (aggressive competition is part of the ideology). And when conditions change rapidly, the time lag introduced by the filtering process may unduly delay organisation response".

Although decisions are not made from scratch, variation in decision making is expected even among managers working in the same organisation. This is because decisions at operating level or middle level or top level, programmed or non-programmed, are not standardised and many factors are expected to influence them. The influence of cultural values are expected to prevail over the entire process of decision-making. Harrison (1975, p. 41) argues that "values may be thought of as the guidance system a person uses when confronted with choices among alternatives. A value can also be viewed as an explicit or implicit conception of what an individual or group, selecting from among available alternatives, regards as desirable ends and means to those ends". According to Harrison (1975), this is because values and ethics pervade the entire process of choice. As they are an integral part of the decision maker's life, so they are reflected in his behaviour in arriving at a choice and putting it into effect.

In brief, the relationship between national culture and organisation structure and different aspects of management practices is evident in the management literature. As cultural values are often different from one society to another, differences in organisational structures and management practices are expected. In Libya, the prevailing cultural values are different in every aspect of Hofstede's cultural dimensions from societies with Anglo Saxon accounting systems such as the UK. Organisational structures, objectives and the ways and means to achieve them are considerably different. The main characteristics of Libyan organisation structures are those of “full bureaucracy”. The main objective is to achieve social welfare and the means to do so are through collective effort, whereas in the UK for example, “implicit structure” is the main feature of organisations. Maximising profit is perceived as the main objective of organisations and the means to achieve this is through self interest harnessed towards the organisational objectives.

Information needed by internal users (i.e. management, employees) to manage and control, and the external users (i.e. government agencies, investors, creditors, and society in general) to control and evaluate company performance, will reflect organisational and cultural differences between Libya and western countries. The information system generating this information should be designed in the light of these differences. Applying the same information system in both societies is unlikely to meet the needs of the information users in at least one of these countries.

9.3. Summary

In both sections of this chapter the discussion of some aspects of the potential influence of religion, particularly Islam, on accounting and the influence of culture on organisational issues and its subsequent effect on accounting, reinforces the evidence of the existing differences between western countries, particularly Anglo Saxon ones, and Libya in many environmental factors.

These results, taken together with the work in previous chapters, indicate that the transferability of the Anglo Saxon accounting system to Libya without the necessary modifications is expected to be associated with limited success.

**Chapter Ten- The Accounting system needed in
Libya and the relevance of a uniform accounting
approach**

10.1-Introduction

The international accounting literature (see chapter three) indicates that most developing countries have for long periods adopted western accounting systems: Unfortunately, in many cases, the contribution of these systems to the developing countries' socio-economic development tends to be very limited. It is evident from the previous chapters that Libya has major deficiencies in information provision. The evidence suggests that financial reports provided in Libya need many improvements if they are to provide users with the information they need to ensure operational efficiency and improve resource allocation by government departments as well as personnel effectiveness.

This chapter discusses some approaches to the development of accounting in Libya, particularly the uniform accounting system with special emphasis on social accounting and assesses the relevance of this approach to the environmental factors in Libya, particularly culture.

10.2- The need for accounting development in Libya

Accounting information has the potential to play a very important role in many of the debates on the issues affecting economic development. According to Gambling (1974), "it is the reform and further development of accounting which offers the most hopeful prospect of resolving many of the most pressing problems of our societies". This is reinforced by Solomons (1980) who argues that "wherever scarce resources need to be optimised there is work for accountants to do". As far as the Libyan development process is concerned, (see chapter six), a role for accounting is significantly needed.

Chapters six, eight and nine have highlighted some reasons which seem to have contributed to the dysfunction of the current accounting systems in Libya. However, two factors in particular, can be highlighted as the most likely in explaining the limited role of accounting in Libya. The first is the absence of any agreed accounting

standards and a general framework for an accounting system in Libya which could be used to provide guidance on how such systems can be maintained and developed. The second is the inconsistency between the adopted accounting system and the country's environment, particularly culture.

Thus, developing an accounting system in Libya is partly expected to lie in:

a) developing a general framework for the accounting system which is able to provide guidance, and to regulate and control the accounting systems and also provide a link between micro and macro accounts in Libya. Problems which the current Libyan accounting systems suffer from include, amongst others, the absence of any agreed accounting standards or principles between accountants in Libya.

Although Libya's laws (e.g., tax law, commercial law) have played a significant role in developing its accounting systems (see chapter six), there is an absence of a complete framework with regard to accounting standard, practices, and methods. This situation has limited the usefulness of accounting reports. Also, the absence of an accounting framework has led to a poor linkage between the needs of macro levels in Libya and the accounting information provided by companies. As a result, the usefulness of this information in controlling, planning, and in evaluation as well as in preparing the national accounts has become limited. Accounting in Libya should provide necessary information for effective evaluation and decision making at both micro and macro levels.

The need to establish a general framework of accounting which provides a guideline for accounting development and linkage between accounting information at the micro and macro levels seems to be a precondition for any attempt for accounting development.

Another advantage gained in the establishment of an accounting framework which is absolutely valid in the case of Libya is highlighted by Watts (1996, p. 6) "a conceptual framework aims to improve the understanding of, and comparability between, financial statements, by developing a logical set of concepts to guide

accounting practice and future development. Users of accounts will then be aware of the basis on which accounts have been prepared and this will help them interpret financial statements in a more meaningful way”.

b) In regard to the second factor, the general framework, including the accounting system, should be in tune with country's environmental needs. The international literature of accounting in chapter four indicates the strength of the relationship between environmental factors and the accounting system in a country. It also shows the adaptation of accounting systems to the local cultural, political, economic and other environmental conditions is seen as a precondition for accounting to be effective (Scott, 1968; Belkaoui, 1988; Perera, 1989a, 1989b; and Samuels and Oliga, 1982). This can be reinforced by developing countries, which have incorporated the IASs that are relevant to its particular environment within its law. Singapore, which has made some adjustments to its accounting systems to fit its particular environment, has found the role of its accounting in the development process to be quite effective (see Briston and Foo See Liang, 1990).

Therefore, any attempt at accounting development which fails to take into consideration the relationship between accounting and its environment is expected to be of limited success. Examples of such attempts can be drawn from international organisations such as the IASC and the UN. These organisations have made attempts to improve accounting in developing countries in order to narrow the differences and achieve international harmonisation of accounting. These attempts have been criticised as they have failed to take the environmental differences between nations into account, particularly those between developing and developed countries. For example, Wallace (1993) reported that one of the shortcomings of the IASC is their failure to take into proper account the needs of developing countries.

10.3- Approach to the development of accounting in developing countries

Given the problem of limited resources, inexperience and lack of an effective profession faced by most developing countries (including Libya), developing their own accounting systems cannot be an easy task. In an attempt to help developing countries improve their accounting systems, different approaches were suggested by scholars such as Scott (1968); Enthoven (1983); Perera (1989); Wallace and Briston (1993).

For example, Scott supports, in theory, that developing countries should follow the example of the UK and the US in adopting a flexible accounting system. Enthoven (1973, p. 297-302) also argues that developing countries, especially old British colonies, could benefit from UK experience in areas of financial, cost and government accounting. The adoption of IASs by developing countries is seen by Cairns (1990, p. 82) as an alternative approach for developing their accounting system because they do not have the resources to develop their own requirements.

As mentioned earlier, many writers (e.g., Briston 1978; Samuels and Oliga 1982; Perera 1985; Wallace 1993) criticise the adoption of developed countries accounting systems and the IASs by developing countries for a variety different reasons. For example, Briston (1978, p. 119) warns developing countries against using US/UK based accounting systems and urges them to develop their own accounting systems. He states that developing countries must create their own locally relevant accounting systems before the 'adverse influence' of US/UK type systems 'has reached an irreversible state.'

Perera (1985) also argues that:

“The available evidence suggests that IASC standards have not been able to make any significant impact upon accounting practices of developing countries. The IASC standards cannot be expected to be successful in developing countries particularly for two main reasons, (a) they are based on experiences which are totally different from those found in

developing countries, and (b) lack of relevant standards is only one of several problems in the field of accounting in developing countries, for example, weak financial management accounting systems in business enterprises, inadequate accounting knowledge of primary users of accounting information, weak professional control, deficiencies in education and research are some of them.”

Others, such as Samuels and Oliga, (1982) went a step further by claiming that the adoption of IASs by developing countries ‘may’ do more harm than good.

Wallace and Briston (1993) identify three possible approaches to improving accounting structures in developing countries, the dependency approach, the self-reliance approach, and self-reliance with external assistance. First, under the dependency approach, developing countries are considered as an extension to developed countries. As a consequence, all their systems, such as administrative, funding, personnel and technology as well as the entire accounting systems (which include regulatory structures, accounting principles, profession, education and training) can be transplanted from developed countries. Despite the fact that this approach has been criticised on many grounds, most developing countries are trapped in this situation (Briston, 1978). The discussion in chapters six and seven indicate that Libya is not an exception. The entire Libyan accounting systems including accounting principles, procedures, reporting, profession and education are found to be transplanted from the western world, particularly the UK. The validity of this approach in developing countries is questioned, as the output of the current accounting systems in most Libyan companies is found to be of limited use and to play only a minor role in the country's development process.

Second, under the self-reliance approach, a developing country may develop its own procedures on the basis of its own socio-economic needs and environmental context without learning from the experience of others. However, given the lack of experience, qualifications and resources evident in most developing countries, including Libya, this approach is rarely adopted and cannot be recommended.

The third approach is self-reliance with external assistance. Under this approach, countries can develop their own accounting system learning from the experience of others while adapting this experience to suit their own needs and environment.

Issues such as the development of accounting systems are environmentally specific, and the acute shortage in Libya of the necessary resources to develop its accounting system, makes self-reliance with external assistance appear to promise an effective result. However, choosing this approach will give rise to another question about the relevant source of this external assistance. Countries with effective accounting systems and a similar environment are expected to be useful sources of assistance.

10.4- Source of External Assistance

In situations where environmental factors differ among countries, accounting differences are expected, and the opposite should also be true. Mueller et al (1987) argue that “if we accept the idea that accounting is influenced by its environment, then it is logical to expect accounting similarities among countries with similar business environments”. So the irrelevance of one country’s accounting systems to another cannot be an absolute statement as long as some environmental similarities are experienced. Although differences are recognised in many environmental factors within western countries and between developing and western countries, similarities in some aspects between developing and developed countries, particularly the Continental group, do exist.

If similarities are experienced between countries in some aspects of their environment, it becomes necessary to ask whether developing countries can benefit from the experience of those developed countries with the environmental similarities.

Reviewing the literature on accounting classification, Samuels (1985, p. 43) infers that a country may be able to anticipate problems and consider possible solutions by observing what has happened in other countries with similar characteristics. However, there may be limits to the extent to which this is possible. The previous

investigation of environmental factors such as culture in Libya compared to the UK highlighted significant differences, and the relevance of the latter's accounting systems to Libya is also questionable. The findings in chapter six and eight suggest that the classification of the Libyan accounting system should be closer to macro-uniform groups such as France.

In the next section of this chapter, some of the similarities between Libya and France, as a representative country of the Continental group, are discussed. This is to reinforce the proposition that the Libyan environmental context is closer to the Continental group rather than the Anglo-Saxon one, and so the experience of the former may be more relevant to Libya.

The similarities between Libya and France will be investigated in two steps. The first will review the similarities in some environmental factors, excluding culture, and the second will review similarities on cultural dimensions and accounting values.

10.4.1- Environmental factors in Libya and France

France is classified as an advanced developed country and ranks ninth on per capita income (Most, 1984, p. 295), whereas Libya is a developing country still engaged in developing its basic infrastructure. In theory at least, Libya and France have adopted respectively, a planned economic system with socialist-orientation and a market-socialist orientation, which in reality have closer similarities than to the free market economy. Evans et al (1994, p. 34) state that “centralised economic planning has been an important feature of the French economy”.

The degree of government intervention in controlling and running economic activities is one of these similarities. In socialist or market-socialist countries, direct government intervention is seen in many aspects of the economy. Decision-making is mainly concentrated in the hands of the central planning authority. In Libya for example, the government is involved in most of the countries' affairs particularly economic activities (see chapter 3 section 3.1). Economic and business decisions are mainly made by a centralised authority. In France, government intervention in

comparison to the UK is relatively high (Perera, 1989, p. 51), government in France is the economic controller, tax collector and provider of state capital (Nobes and Parker, 1991, p. 33).

In socialist countries the state owns and controls most production facilities. As a result, any growth of economic activities in Libya is due mainly to the work of the public sector. This is very large and dominates the economy, whilst the private sector is very small and the numbers involved are few. In France, although the role of private sector has increased, the public sector is still large and has played a significant role in the country's economic and social growth (see chapter 3).

As the economic system in both countries is relatively similar, accounting in these countries could be expected to have a relatively similar role and objectives. Accountants in both countries cannot ignore the requirements of economic decision making within the public sector. In a centralised economy, corporation control is exercised at the centre, and accounting reports have to be designed to primarily provide control information to the centre (Bailey, 1973).

In regard to the sources of funds for investment and working capital, similarities can also be witnessed between Libya and France. Libya has not yet been able to establish a stock market as the source of funds come from the government and some public owned institutes such as banks and large corporations. There are historic parallels to France. Williams and Hagigi (1993, p. 73) state that "when the French accounting systems was developed, the stock exchange was not a significant factor in financing business growth and development. Capital was primarily provided by banks and the government, hence the macroeconomics focus of the French accounting system".

Accounting in both France and Libya could in some ways be viewed as having a more important or co-ordinating role than would be the case in a purely capitalist economy, in resource allocation, monitoring social and economic development plans.

The status and role of professional accountants in both Libya and France is another area of similarity. In countries adopting a statutory approach such as France (see chapter two), professional accounting plays a less significant role in developing accounting principles and systems. Also, the status of professional accountants in France is relatively low compared to those in the UK (Watts, 1996). In Libya, the role exercised by the accounting profession in developing and controlling accounting is very limited (see chapter six). It is the legal systems such as the tax law, and commercial code, which played a significant role in developing and organising accounting in Libya. Partly as a consequence, the status of accountants in Libya can be ranked very low when compared to the UK.

In Libya, as in many other developing countries, development plans have been set out to build social and economic institutes. These institutes or companies have economic as well as social responsibilities toward their society. To a degree, this is also the case in France, where companies appear to have a social orientation (Nobes and Parker, 1981, p. 224). Social accounting is expected to play an important role in controlling and evaluating performance as well as in the development process in both countries. Thus monetary information about profit is not the only requirement. Their companies' accounting reports should include information that deals with the physical product and social aspects.

Relative similarity between Libya and France is also expected to exist among the main users of accounting reports. In France, investors are relatively few in number and consist, to varying degrees, of organisations rather than individuals which is relatively different from the UK. Investors in Libya are also found to be very few in number, consisting of organisation rather than individuals. Thus, government agencies such as the Industrial Secretary, and the Planning and Economic Secretary, are expected to be important users of accounting reports in both countries.

10.4.2- Culture and accounting similarities between France and Libya

The research of many scholars discussed in earlier chapters reveals the importance of culture as one environmental factor that has significant influence on the accounting

system and practices in each country. If there are similarities in cultural dimensions and accounting values between Libya and France, this could be perceived as another important indicator for supporting the notion that the French experience is more relevant to Libya. The similarities between France and Libya in this regard are discussed below.

1- Cultural Dimensions

Using Hofstede's cultural values dimensions, the following explores the extent to which similarities do exist between Libya and France on cultural dimensions, and on their accounting values.

- (i) Power Distance. Chapter eight reveals that the Libyan rank (within the Arab countries group) on the power distance dimension is very high. Although France is considered as a developed country, and the gap between its population in terms of the rich and poor is not highly significant, Power Distance in France is also considered to be relatively high, particularly in comparison to most other democratic European and Anglo-Saxon countries (see Hofstede 1984). This is explained by the fact that French society tends to prefer hierarchical order and rules and highly centralised bureaucratic structures (Crozier, 1964). This is a trait which seems to have been a stable and accepted characteristic of French society over a long period of time, and is exhibited in political and economic hierarchies at all levels (Most, 1984). Table 49 shows Arab countries (including Libya) as a group ranked sixth out of fifty national groupings, with a score of 80. This score seems to be closer to France (68) than to Anglo-Saxon countries such as the UK, which scores (35).
- (ii) Uncertainty Avoidance. Libyan social values as discussed in chapter eight could be ranked as medium high on the Uncertainty avoidance dimension. France, as indicated in Hofstede's Index, has a high score. According to Hofstede's Index the Uncertainty Avoidance score for Arab countries (including Libya) was 68, with a ranking of twenty-seventh, whereas France scored 86 and was ranked tenth equal in the study. Although the score of France is higher than the Arab countries

in general, the social values' orientation in both Arab countries and France is considered relatively high compared to Anglo-Saxon countries such as the UK, which scored (35).

(iii) Individualism. Chapter eight indicates the Libyan orientation on this dimension is very low, which is reflected by Hofstede's Index where Arab countries as a whole score (39) and a ranking equal twenty-sixth. French orientation on this dimension lies above the score of Arab countries but lower than the score of Anglo-Saxon countries such as the UK. France scores (71) and is ranked equal tenth, whereas the UK scores 89. Therefore, although differences between Libya and France exist on individualism, the Libyan score is still closer to France than to the UK. However, it is recognised that there is a significant difference between Libya and France on the individualism dimension.

(iv) Masculinity. Masculinity can also be seen to be a matter of some similarity between Libya's cultural orientation and that of France. Chapter eight indicated Libyan society as located towards the middle, between masculine and feminine. This is also revealed by Hofstede's Index, which shows Arab countries as a group to be placed in the middle range of the index with a score of (53). France can also be considered as middle range, as it scores (43). This contrasts with the UK which scores (66). Libya is more closely aligned, albeit slightly, to France than the UK on this dimension.

Table No (49) France, Britain and Arab countries' ranking according to Hofstede's dimensions

Country	Power/D	Un/Ax	Id/C	Mas/F
France	68	86	71	43
Arab- countries	80	68	39	53
Britain	35	35	89	66

Note: The higher the number, the higher the country ranks on that particular dimension.

Source: Hofstede (1983, p. 50)

2- Gray's Accounting Values

Using Grays' propositions, Perera (1989) argues that culture has played a significant role in developing and forming a country's accounting system. According to Gray, a country with a higher rank in terms of Uncertainty Avoidance and Power Distance and lower rank in terms of Individualism, is expected to express a high rank in terms of Uniformity, (lower professionalism). As France is categorised culturally to exhibit strong Uncertainty Avoidance, a low degree of Individualism, and relatively large Power Distance, Uniformity (or lower professionalism) is expected to be demonstrated. Chapter two indicated that uniformity with a limited role of professionalism are the main features of accounting values in France. Crozier (1964) states that "in France, formalised policies and procedures, i.e. bureaucracy, are used to reduce uncertainty". This is also reinforced by Holzer (1993, p.226), who argues that "France enjoys cultural advantages in her preferences for hierarchical structure held together by the unity of command (large power distance) as well as by rules (strong uncertainty avoidance)". Chapter eight concluded that although Libya has adopted a self-regulatory approach, the role of professional accounting is found to be very limited, and there is evidence of consistent use of accounting methods and practices over time within individual companies, even under changing circumstances.

In a similar fashion, Gray's proposition indicates a country with a high rank in terms of Uncertainty Avoidance and a lower rank in terms of Individualism and Masculinity, is likely to exhibit a higher level of conservatism within its accounting system. This suggests that French culture which exhibits strong Uncertainty Avoidance, a low degree of Individualism, and relatively low Masculinity, will lead the French accounting system to be more conservative. Gray (1980, p. 69) made a comparative empirical study of profits reported by large companies in France, Germany and the UK. He concluded that "French and German companies are significantly more conservative or pessimistic than UK companies". Williams and Hagigi (1993, p. 73) also argue that French accounting can be characterised as being extremely conservative. The Libyan accounting subculture also has a preference for a conservatism orientation (see chapter eight).

The final proposition of Gray's model claims that the higher a country ranks in terms of Uncertainty Avoidance and Power Distance and the lower it ranks in terms of Individualism and Masculinity, then the greater will be the secrecy exhibited within its accounting system. Although France is quoted as having fuller disclosure than the UK For example Standish (1995, p. 250) wrote that " French income statement fixed formats call for more detail than is the case, for instance, in Britain". However, it is important to recognise that the legal framework in France is designed to protect the interest of a wider stakeholder group and it is therefore difficult to establish the underlying cultural orientation toward secrecy. Investigating these accounting values related to secrecy in Libya in chapter eight reveals that the accounting subculture prefers a higher degree of secrecy.

Table No (50) France, Britain and Arab countries' ranking according to Gray's dimensions

Country	Prof	Unif	Cons	Secr
France	Medium	strong	strong	medium high
Libya	weak-	medium strong	strong	high
Great Britain	strong	low	low	low

Evidence is mounting that although some environmental differences do exist between developing and developed countries, Libya seems to have more in common with certain Continental countries rather than those of an Anglo-Saxon orientation (see Table (50).

The disappointing experience of Libya with a self-regulation approach over a significant period, and the admired result of the uniform accounting system in some developed and developing countries [e.g., France (see Mueller, 1967, p. 114) and Most (1971, p. 15); Egypt (see Briston and El-Ashker (1984); Iraq (see Zeban 1988); and Morocco (see Hagigi and Williams 1993)] as well as the evident relative similarity between Libya and France shown in the above discussions, leads to the suggestion that the uniform accounting approach could be an appropriate alternative approach for Libya to develop its accounting system and to overcome some the

obstacles it has encountered. It would be a costly exercise to adopt or recommend accounting models that have worked for other countries, without examining their relevance to the country.

10.5- Uniform accounting system and its relevance to Libya

It is not enough to identify the characteristic of accounting values to develop an accounting system in a country. Determining the accounting regulation approach, by which accounting systems can be implemented and controlled is also an important factor for the applicability of any accounting system.

Uniformity has been given different definitions in the accounting literature. For example, Enthoven (1973, pp. 112-113) provides a comprehensive definition of a uniform accounting system which incorporates all accounting variables, all levels of the economy and all levels of organisation. He adds that a uniform accounting system which incorporates these elements can cover the entire administration of information for all socio-economic activities in the micro and macro economic sector, covering the internal and external need of the various user groups. Therefore, a uniform accounting system is often used to refer to a system in which accounting standards, procedures, methods and the forms of financial statements are specified by general plan. The plan often gains its enforcement from government law. Investigating the accounting system under a statutory approach (see chapter two) reveals that uniformity is the main feature of its accounting system. For example, in France a comprehensive effort to regulate accounting is made through The *Plan Comptable Général*. The plan specifies definitions, standards, procedures, and the forms of financial statements (Alhashim and Arpan, 1992, p. 30). As a result, the forms and contents of financial statements are prescribed by the relevant laws, leading accounting practices toward more uniformity.

Merino and Coe (1978, pp. 62-63) classified four levels of uniformity which range from complete rigidity, which gives the details of every single transaction, to weak uniformity, which allows a limited number of accounting forms and procedures,

although management has the upper hand in deciding which forms and procedures are suitable. Uniformity is considered in this study as closer to the complete rigidity model, applying similar accounting techniques, procedures, methods, and principles to all accounting field and levels of the economy and to all levels of entities at which the application of uniform accounting methods and procedures is possible; it is otherwise applied at sectoral or industry level. This is because it will help eliminate unnecessary subjectivity in the choice of accounting methods and increase the reliability and comparability of the provided information.

Uniformity has been criticised on the grounds that the business environment is complex and therefore accounting should be flexible and diverse, not simple and meaningless. However, it is important to mention that uniformity does not always mean standardisation of accounting reports and methods on the level of entire economic entities in a country. Flexibility does exist as uniformity can be applied on segmental groups according to their activities. For example, under the French national plan, each particular group of businesses, such as banks, insurance, co-operatives etc. are offered different modified forms to suit their sectoral character.

However, flexibility under a self-regulation approach has been criticised by Chasteen (1971, p. 508). By studying empirically the differences in inventory evaluation methods, he reveals that flexibility does not always reflect differences in economic circumstances. Supported by agency theory, it could be argued that flexibility may be only used by management for their self interest and not to reflect differences in economic circumstances. This choice may then lack objectivity.

Under a uniform accounting system, problems of enforcement and lobbying in respect of the accounting standards which are apparent under the self regulation approach may be minimised. Watts (1996 p.225) states that under governmental regulation enforcement, problems are minimised because of the legitimacy of Parliament and the authority of the law. He also makes the point that “although not immune from pressure groups, parliamentarians are drawn from a wider cross-section

of community and are less susceptible to such single issue pressure groups as those faced by the ASC when considering research and development”.

Uniformity has also been criticised on the basis that it does not automatically improve the quality of financial data (Watts, 1996). There is no reason for accounting not to be developed under a uniform accounting system. However, in Libya the low quality of accounting information in financial reports, coupled with the limited role of the accounting profession in developing accounting under the self-regulation approach, leads one to suggest that even the minimum benefits of uniformity would be better than the present outcome.

A uniform accounting approach is therefore being considered as a model, with the main objective of providing a frame of reference, or a structure for accounting practice, within which the adequacy of specific methods may be judged, and to formulate a coherent accounting framework to enable accountants to improve the quality of financial reporting. In addition, adopting a uniform accounting system in a country will help to make the linkage between micro and macro levels more efficient. This is reinforced by the French experience. According to Most the French accounting plan plays vital for supplying data in a practicable manner regarding all segments of the economy and contributing heavily to French economic achievements. Much of the information needed at the macro level, which could be useful in compiling national income accounts and knowing the input-output tables on a sectoral basis, performance evaluation, control etc. can be obtained. Bailey (1984, p. 39) also argues that “the French system had a macro orientation and was intended to generate data useful for economic planning”. Briston and El-Ashker (1984, p. 135) evaluated the role of the Egyptian uniform accounting system in terms of the provision of information for the purpose of economic planning and control by stating that “one of the main objectives which the Egyptian accounting system has been seeking and has succeeded in achieving is the collection, tabulation, and storing of data by companies in order to provide governmental bodies with required information. It has been shown in practice that various kinds of information at different degrees of detail can be easily collected at the state level within a

comparatively short time". Enthoven (1973, p. 236) argues that a uniform accounting system facilitates comparability in (1) structured analysis of enterprises (2) efficiency measurements and evaluation activities, (3) ex-ante and ex-post investment appraisals and related economic decisions. Enthoven adds that the uniform accounting system has the feature of enhancing the effective function of the administrative set-up, a procedure that must precede any improvement in tax structure formulation (Enthoven, 1973, p. 123).

From the above discussed criteria the problems which encounter the present accounting system in Libya of lacking a general framework and guidelines, seems to be solved by adopting a uniform accounting system. This conclusion was reinforced by the interviews with officials of the Secretaries of Economics and Planning, Industries, Treasury, Institute of Public Control and Industry about how effective they think the accounting system would be if it were regulated by the general accounting plan. For example, the interviewee in the Secretary of Economic and Planning, stated that:

"Diversity between accounting practices, principles, and reporting procedures in all companies in Libya hinder them from making use of this information in planning, controlling and making rational decisions. Thus, establishing an accounting framework by which the accounting information is generated and presented on a similar basis would significantly improve the role of accounting information at the macro level."

The other official in the Secretary of Treasury stressed that

"Any accounting system which can establish the linkage between companies' accounting information with the needs of users at the macro level, and help construct the national accounts, will definitely be of greater help than the current accounting system".

Furthermore, an interviewee from the Secretary of Institute of Public Control pointed out that:

"The current problems in the accounting system (diversity and low reliability) will persist as long as the accounting profession in Libya is responsible for developing the accounting system, simply because they are doing very well

under the present unregulated system. Thus, I personally support the notion of adopting a uniform accounting system, because, first it will increase the reliability of accounting information as it will limit the chance for managers to play with the accounting standards and methods for their own interest, and second it will facilitate the process of preparing and auditing companies' financial reports."

The senior officer in the Secretary of Industry argued that:

"In the absence of a regulated accounting system in Libya, users at the macro level are very suspicious of the manager's ability to provide reliable information as they tend to place their company in a desirable position. So I think the adoption of a uniform accounting system would be more useful as it increases confidence in the accounting information".

He also highlighted the importance of uniform accounting system:

"it gives the chance to determine the information which is needed by different users in advance and guarantee its flow within the companies' financial reports. It recognises there is a limit to the possibility to meet all the users' needs."

Chapter four indicated that the main criterion by which to judge the relevance of any accounting system to a country, is its consistency with environmental factors, particularly culture, in which it operates. Thus, the effectiveness of a uniform accounting system to Libya is expected to be dependent on its relevance to these factors. By reviewing the characteristics of the uniform accounting system with the unique Libyan environmental factors, excluding culture, and the Libyan culture values orientation, the remaining part of this chapter will assess the relevance of the uniform approach to Libya.

10.5.1- Some environmental factors enhancing the relevance of the uniform accounting system in Libya

Alhashim and Garner (1973) identified a set of circumstances and conditions for a country under which uniform accounting may be seen as an appropriate framework to be adopted. Perera (1989) condensed these circumstances and conditions to five, and expanded the sixth set of conditions to include elements of culture not originally

covered in the work of Alhashim. The focus of this section, whilst dealing with the first five sets of conditions, is on the cultural factor.

1- The role of government in economic activities

According to Perera (1989, p. 150-51), the more centralised the economy the more important is the need for the information to be generated on a uniform basis among enterprises, and hence, the more integrated its enterprise accounting system is with planning requirements. This assumption can be justified on the grounds that, as mentioned in chapter three, the effectiveness of the government and its planning authorities' decisions in a centralised economy are dependent to a large extent on the availability of adequate and reliable information, as the mechanism of market force is restricted. It is also desirable that users (e.g., government and its planning authorities) should be able to compare an entity's performance and position both at different times and between similar organisations in order to establish trends. Thus, adopting a uniform approach in a centralised economy seems to be more useful in these circumstances.

The relevance of the uniform accounting system to a centralised economy is reinforced by many other researchers (e.g. Mueller, 1967; Enthoven, 1975; Nobes & Parker, 1995-81). For example, Nobes & Parker (1981, p. 68) viewed the consequent uniformity for which French accounting is well-known, as very useful in an economy which is centralised and closely regulated by the government. Mueller (1967, p. 99) states that "complete uniform accounting system is a prerequisite to effective central planning... of necessity Soviet Union accounting must be uniform". Nobes and Parker (1995, p. 55) also argue that it may well be that in the absence of large and listed companies of many private shareholders and of a strong profession, the use of an accounting plan is more suitable than Anglo-Saxon judgmental accounting principles.

In Libya, as mentioned earlier, centralisation with strong government involvement in economic affairs is the main feature of its economic system. There is a Secretary of Economic Planning with special responsibility for directing the economy, and

economic development plans are prepared centrally by this Secretary. The country has not yet developed a capital market and information provided by the accounting system is one of the main sources of data for decision-makers. Therefore, according to this proposition, the accounting system in Libya has many of the characteristics necessary for uniformity.

2- The need for economic development by central government.

According to Perera (1989), the more urgent the perceived need for economic development by a central government, the greater the desirability of uniformity. As discussed in chapter three, this assumption can be justified on the basis that accounting reports should have a significant role to play in providing the central authority with the necessary information. For these reports to be as useful as possible to a central government, a certain degree of uniformity is required, because only then can they be used as a basis for comparison between different enterprises to find out which are lagging in efficiency and productivity (Perera 1989, p.151). Belkaoui (1985, p. 342) also argues along the same lines that “given the important role of accounting in economic development in general and development planning and project appraisal in particular, there may be a need to ensure that the developing countries develop accounting system capable of providing efficient and organised economic and financial data. One way of achieving this general objective is to simplify and unify all aspects of accounting information systems in order to improve the reliability and consistency of information”.

Chapter three indicates that in Libya, as in many developing countries, the need for economic development has been strongly felt by the government, which has devoted a huge part of the country's resources to achieving this goal. Therefore, on the basis of this assumption of Perera, a uniform accounting system in Libya is desirable.

An analysis of Libyan economic and political policy as well as the structure of Libyan enterprises in chapter six, indicated that for effective economic planning and control systems, the country needs to establish a comprehensive system which is capable of accumulating all accounting related information so that it can be used as

the main data base for economic decision-making at various levels. Concentrating mainly on enterprise accounting, as is the case with the current Libyan accounting system, will not meet user needs. Thus, the country needs to have an accounting system or approach that is capable of integrating all the different branches of accounting e.g., enterprise accounting with more emphasis on both external and management accounting, government accounting and national income accounting etc. Holzer argues that, unlike the generally accepted principles approach, uniformity is often concerned with both cost accounting and financial accounting, also the national accounting plans are considered necessary for micro- and macro- accounting purposes. This has made data on financial reports an important planning tool in France, particularly for the preparing of national income accounts. Bailey (1984, p. 39-40) also argues that “in both France and Germany, where the control of operating activities has been more centralised than in Britain, attention has been directed to the creation of extensive product cost accounting systems for the provision of data on product costs and profits to the senior executive”.

Again, under this proposition the uniform accounting system seems to be more in line with the needs of Libya. This conclusion is also supported by the senior officer in the Secretary of Treasury who stressed that:

“Any accounting system which can establish the linkage between companies' accounting information with the needs of users at the macro level, and help in constructing the national accounts, will be of greater help than the current accounting system.”

Referring to French experience with uniform accounting, Enthoven (1986) states that “not only has the system proved extremely useful for social accounting and public administration, but it has been also of great benefit: (a) to macro and micro economic planning; (b) to industries and industrial associations in making the necessary economic analysis and forecasts; (c) to comparing productivity; (d) and furthermore, it tends to enhance the efficient administration of enterprises. It also should be mentioned that the French accounting plan has been trying to correct deficient accounting practices”.

3- The availability of trained management

According to Perera (1989, p. 152), the less the availability of trained management, the greater the need for uniformity. This assumption can be justified on the grounds that managers play a significant role both as users of accounting information and as controllers of the accounting information system in an enterprise. Thus, untrained managers will not be able to understand and use the output of the accounting system nor have the awareness to design or develop a relevant and effective accounting system. Although the improvement of a manager's skills and training is important, implementing a uniform accounting system can help a country to overcome some of the above problems. In a uniform system there is less chance of the manager changing or diverting from the original accounting system which is built in accordance with external and internal needs. Also, under a uniform accounting system, the training programmes for management could be expected to be effective and cost less in comparison to a self-regulatory approach.

Glautier and Underdown (1992, p. 111) state that as most developing countries have an acute shortage of skilled personnel in almost all areas of business activity, national accounting plans offer such countries a way of overcoming this problem. In summarising the advantages of uniform accounting systems, Glautier and Underdown (1992, p. 111) argue:

- ♦ Staff training costs can be reduced as new staff can be trained on standard procedural manuals that provide a reference base for dealing with most recording problems;
- ♦ The use of standard procedure manuals guarantees minimum quality standards in accounting systems performance;
- ♦ Specialisation of labour permits high quality staff to concentrate on difficult problems, and less experienced staff to work on routine standardised procedures;
- ♦ Monthly and year-end financial statements can be routinely prepared through computer programs that process data flowing from standardised accounting systems; and

- ♦ In the case of large international accounting firms, 'high tech' accounting practice developed in advanced countries, such as the USA and the UK, can easily be transferred to other countries.

Unfortunately, the status of management in developing countries has been criticised on many grounds. The lack of trained and qualified managers is often seen as one of the main problems stopping development. Libya is not an exception, as the lack of trained and qualified managers is highly evident as confirmed by the United Nations report (1994), Industrial Research (1978) and was also highlighted in chapter six. Therefore, once again, according to these criteria, the uniform accounting system seems to be more relevant to the Libyan environment.

4- The level of accounting education.

According to Perera (1989), the lower the level of accounting education in a country in comparison with industrialised countries, the greater the need for uniformity. The relevance of a uniform accounting system to countries with low levels of accounting education is highlighted by many researchers. Jones (1984) for example, concludes that if an imported system were considered necessary for developing countries poor in financial and human resources, use of the *cameral* system is much more logical than the recent version of municipal accounting from the UK.

Nobes and Parker (1991, p. 164), in connection with standardisation in Anglo-Saxon countries, state that:

“...the greater standardisation of practice engendered by the plan facilitates interpersonal and inter-enterprise communication between accountants and users. In these conditions, the operation of accounting systems, the meaning of accounting terminology and the formatting of annual accounts have a greater degree of inherent predictability than has historically been the case in English-speaking world, where there has been greater emphasis on accounting information as the private language of business.”

Watts (1996, p. 245-6) also reinforces the advantages of a uniform accounting system by stating about the accounting *Plan* that:

“It simplifies the work of auditors and tax inspectors. It also reduces the need for accountants by limiting the variety of accounting systems and eliminating accounting expertise and judgement in many areas. This latter point has been reinforced by the wide availability at reasonable cost of microcomputers and inexpensive standard software packages. It also aids the collection of national statistics by allowing a civil servant to collect detailed information simply by aggregating the amounts recorded by firms under any particular code”

Libya, as reviewed in chapter six can be ranked as having a low level of accounting education in comparison to the UK. This is despite the fact that in the last decade the country has witnessed an increasing number of accounting education institutes at both universities and intermediate levels. There has been an absence of any serious development, changes or adaptations to the accounting curriculum in Libya since it was adopted from the British and the US in the 1950s. This, in addition to the absence of any training and development programmes, can lead one to suggest that the country is taking an inappropriate approach to developing accounting education by concentrating mainly on the quantity rather than the quality of its accountants. Even though the number of qualified Libyan accountants has increased, the problem persists in that there is still a shortage of quality skilled accountants who can meet the needs of Libyan users. Perera (1989, p. 152) concludes that in a country where there is a shortage of skilled accounting personnel, a mandatory system would help improve the overall usefulness of accounting information, whatever the shortcomings that might be attributed to such a system at the more sophisticated level of accounting. Thus, according to this Perera’s criteria, one can safely suggest a uniform accounting system is desirable in Libya.

It can also be added that the relevance of a uniform accounting system in Libya is reinforced by recognition of the need for the orientation of accounting reports, particularly in developing countries to be wider, to cover a wider range of users, including customers, suppliers, the local community, society at large, employees and government agencies (see chapter three). It has already been mentioned in previous

chapters that the general level of education in Libya is low. According to Mueller et al (1987), "accounting cannot be highly developed in a country where general education levels are low,... At the same time, the users of a company's financial reports must themselves be sophisticated-or else there will be no demand for sophisticated accounting reports". So, in order to extend their relevance to a wider group of users, accounting reports should be presented in a manner that can be understood by most of their potential users. Financial statements provided on a uniform basis can be presented in a manner readily understandable even by those who lack accounting education.

The above suggests that the simplicity of accounting procedures and reports provided under the uniform accounting system in comparison to the ones provided under a self-regulation approach, can reinforce the relevance of a uniform accounting system to potential users in Libya

10.5.2 - The Libyan culture and uniform accounting system

Culture has been defined in chapter four as "the collective programming of mind which distinguishes the member of one human group from another." (Hofstede, 1984, p. 21). It is also stated in chapter four that the efficiency of any system is highly dependent on its acceptability by the dominant collective mental programming in that country. Inconsistency between this collective mental programming orientation and the developed system is expected to hamper the implementation of the system.

The persistence of the low performance of the Libyan accounting system, despite significant changes in some of the environmental factors, e.g., economic, political and educational, has suggested the limited influence of these factors on accounting as it is practised in Libya. It also suggests the importance of the role of the cultural factor as it is kept in the minds of people and takes a long time to change. Therefore, given the claim that culture cannot be changed in the short run, the proposed accounting system should be developed to be in tune with cultural values in Libya.

It is important to note that it is not the point here to develop an accounting system entirely relevant to cultural values, rejecting apparently irrelevant practices despite their usefulness. The aim of the review of uniform accounting is to establish a workable model. By knowing the cultural orientation of Libya and its relationship to accounting practices, we can take the necessary measures by which an appropriate or relevant method or practice can be made to work (e.g., ensuring levels of disclosure even though the cultural orientation is towards secrecy). Again, by using Gray's (1988) propositions, the relevance of a uniform accounting system to Libyan culture will be investigated.

1- According to Gray's framework, which links the relationship between cultural values and accounting values, a country with a higher rank in terms of Uncertainty Avoidance and Power Distance and lower rank in terms of Individualism, is expected to express a high rank in terms of uniformity.

Chapter eight indicates that Libya shows a combination of large Power Distance, strong Uncertainty Avoidance plus collectivism. According to Perera (1990), the higher the degree of professionalism the greater the degree of professional self-regulation and the lower the need for government intervention. Thus, Libyan cultural values are expected to express a preference for a lower degree of professionalism, which is in fact a reflection of society's positive attitude toward the statutory approach. The discussion in chapter eight supports this statement in Libya. This is despite the fact that professional accounting is left almost free to develop, organise and control the accounting in the country. The profession plays a very limited role, and there is clear evidence of the need for government intervention through laws and the Institution of Public Control in Libya.

This can be interpreted through the context of Libyan culture on the basis that as Libya scores high on Power Distance, this presents an acceptance of a hierarchical order when everybody has a place which needs no further justification. This dimension is manifested in Libya in many ways, such as the centralisation of authority and the degree of autocratic leadership. Reviewing accounting regulation in

chapter two reveals that the mechanism under which the self-regulation approach works does not build on centralised authority and autocratic decisions but rather on the bases of consensus and general agreement among accountants. The mechanism by which uniform accounting is operated is built on the basis of centralised authority and decisions; the contribution of professional accounting and accountants is restricted to a minimum. As a consequence, the uniform accounting system which is enforced by a centralised authority is more in tune with Libyan cultural values, rather than the professionalism system.

Libya ranks high on Hofstede's cultural dimension of Collectivism. According to Hofstede, this dimension will influence the people's priority in pursuing their interests. In a collective society, people tend to identify their own interests with the interest of society. Thus, accounting reports in a collective society such as Libya should not be oriented to serve the interests of specific groups such as investors, but should be oriented to serve the interests of society as a whole. According to Perera (1989), as people tend to identify their own interests with the interest of society this will lead to greater acceptability of uniformity. One of the main criticisms of the self-regulation approach is that it is oriented mainly to serve the interest of investors and creditors with less attention to other users. In contrast, the uniform system is not restricted to serve the interests of particular groups but is oriented to serve a wider variety of users. Therefore, the uniform accounting system seems to be more consistent with the Libyan cultural values of collectivism.

Chapter eight also categorised Libyan culture as strong on Uncertainty Avoidance. According to Hofstede, societies with a strong Uncertainty Avoidance dimension feel uncomfortable with uncertainty and ambiguity. Thus, they tend to establish laws and all kinds of formal rules and institutes to protect themselves from the unpredictability of human behaviour. People in these societies expect to feel more comfortable working under law and complying with it. Therefore, in a country such as Libya, systems which are imposed by laws, rules and regulation are expected to be more acceptable and workable. This argument is reinforced when company accountants and public accountants in Libya were asked to choose between the self regulation

approach in which accountants are encouraged to exercise their subjective judgement such as in the UK and US, or a statutory approach in which accountants are limited in the exercise of their judgement by using a uniform approach, such as in France and Germany. As indicated in Table (36) there is general agreement between most companies' accountants. About 72 per cent prefer the statutory approach as being more relevant to developing accounting in Libya. However, looking at the selected public accountants slightly more than (55%) see the self regulation approach as more relevant. The apparent conflict may be resolved when it is recognised that public accountants would be the first to lose under a statutory approach. Given this, a statutory approach seems to offer the conditions under which Libyan accountants would prefer to work.

Generally speaking, under a self-regulatory approach, the control and development of accounting standards and regulations depend mainly on professional accounting. Under a statutory approach, although professional accounting has its significance in designing the accounting system, it is mainly the government which controls, develops and organises the accounting system through the national accounting plan. Thus, for a country like Libya with a negative cultural attitude towards professionalism, adopting a uniform accounting system is consistent with its cultural values.

2- Gray's second proposition states that a country with a high rank in terms of Uncertainty Avoidance and a lower rank in terms of Individualism and Masculinity, is likely to exhibit a higher level of conservatism within its accounting system.

Libyan cultural values, indicated in chapter eight, show a combination of strong Uncertainty Avoidance, high collectivism and medium score on masculinity. By investigating the accounting subculture of conservatism, Gray's proposition is supported in Libya, as accountants in general are found to have a preference for a cautious approach in their measurement practices.

According to Gray, Uncertainty Avoidance is the closest cultural dimension to conservatism, because Uncertainty Avoidance manifests itself through people's attitude towards the future. In strong Uncertainty Avoidance societies, people see the future as essentially unpredictable and tend to be very cautious in their decisions and avoid taking risks. Gray also argues that people under a high level of individualism and masculinity will score low on conservatism because they tend to place emphasis on individual achievement and performance which will foster a less conservative approach. The opposite of this argument is evident in Libya, where the culture scores high on Collectivism and moderate on Masculinity. Thus, accountants and managers show (see chapter eight) a more conservative orientation in their asset evaluation and profit measurement.

Thus, in order to be effective, the development of any accounting system in Libya should take the Libyan cultural orientation into consideration. Adopting a self-regulation approach in a society with a strong Uncertainty Avoidance such as Libya, accounting information provided by the accounting reports can be abused by managers as they tend to implement traditional measurement practices by which they can adopt a cautious approach in their income measurement, regardless of the reliability of such information provided. In contrast, using a uniform accounting system reduces this problem, as people in Libyan society tend to prefer working under a set of laws and regulations; and these laws and regulations can be used to impose the relevant methods and practices in which reliability of such information is protected.

3- Another of Gray's propositions states that the higher a country ranks in terms of Uncertainty Avoidance and Power Distance and the lower it ranks in terms of Individualism and Masculinity, then the greater will be the secrecy exhibited within its accounting system.

Investigating these accounting values in chapter eight, reveals that Libyan accounting subculture is also found to have a preference for a higher degree of secrecy, and so influences accounting disclosure practices. In Libya, this can be interpreted on the

basis that people under a high level of Uncertainty Avoidance, try to preserve security by avoiding the risk of disclosing more information to the public. Thus, in order to maintain confidentiality, they restrict information about the business to only those closely involved with management (see Tables 25 and 30). This is also consistent with a particularistic value orientation, similar to that described by Hofstede as collectivism society. The obligations of particularistic value oriented managers are related to their family members owning and managing firms with external reporting practices designed to meet legal requirements. This results in the limitation of the disclosed information only to those closely involved with the company rather than external parties. Strong power distance in Libyan cultural values also encourages the restriction of information, to preserve power inequalities by those people holding a high position in the companies.

One may argue that implementing a self-regulation approach in a country such as Libya, with high ranks in terms of Uncertainty Avoidance and Power Distance and lower ranks in terms of Individualism and Masculinity, will lead to the abuse of accounting reports by managers and will negatively affect the quantity and quality of information disclosed and, as a result, limit its reliability. Alternatively, adopting a uniform accounting system in which the required information and its sound set of fundamentals laid down by the national accounting plan would seem to provide an alternative approach to overcoming these problems. This is reinforced by the senior officer in the Secretary of Industry pointing out during interview that:

“In the absence of a regulated accounting system in Libya, users at the macro level are very suspicious of the manager being able to provide reliable information, as they tend to place their company in a desirable position. So, I think the adoption of a uniform accounting system would be more useful as it increases confidence in accounting information.”

In other aspects, the combination of a low level of professionalism and the preference for conservatism and secrecy in Libya, has resulted in a negative effect of disclosure. According to Perera and Matthews (1990, p. 240), “as on the other hand collective values of the society (such as Libya) requires business enterprises to be accountable to society by way of providing information, therefore, it becomes necessary for the

government to intervene and lay down certain disclosure requirements, including those in regard to social accounting". This is also consistent with the Libyan cultural attitude towards laws and regulations, and leaves no room for managers to hide information needed by users. This observation is also consistent with some of the reasons provided by Benston (1976, p. 99) as to why government may regulate financial disclosure: (1) The obligation of government to provide for the enforcement of contracts; (2) A concept of fairness in dealing with people; (3) Protection of non-shareholders who are affected by companies; (4) Improved efficiency of resource allocation; (5) Improved administration of government and the public's and employee's 'right to know'; and (6) Political considerations.

10.5.3- Uniform accounting and social reporting

The previous chapters show accounting systems in a country cannot be studied in isolation from the surrounding environment. Thus, before making any attempt to develop an accounting system, special consideration needs to be paid to the country's specific needs. For instance, according to Solomons (1986), having an agreement on the objectives of financial statements is the first step towards determining the type of reporting that is needed and the accounting system to which that reporting is to conform. Although there is a general consensus that one of the main objectives of financial reports is to meet the needs of users, different categories of users have been identified (e.g., The Corporate Reporting ASSC, 1975; the Corporate Report CICA, 1980). Therefore, the objective of financial reports is expected to differ in accordance with the type of user categories in each country. Referring to the usefulness approach adopted by the IASC, the objective of financial statements is restricted to providing financial information intended for a very restricted set of stakeholders, i.e., shareholders and financial market investors within a strictly economic domain (Wallace, 1993). Moreover, the traditional view of the legitimate right to enterprise information in Anglo-Saxon countries is based on a relationship which has been criticised as narrow (Gray et al, 1987, p. 85).

The previous chapters have indicated that this is not the case in developing countries, particularly Libya, where capital market investors and creditors are not the main

users of accounting reports. Furthermore, as Libya is involved in social and economic development programmes, enterprises in the country are expected to be economically and socially responsible. According to Wallace (1993, p. 137), "such a responsibility in a developing country requires a contribution to the national goals and aspirations". To meet this responsibility, companies should provide complete and relevant information to those to whom they are accountable. Companies in Libya, as presented in chapter six, are accountable not only to the owners but also to all parties having a legitimate right with these companies. This extends to include all the stockholders including the government, the local community, employees and the public. The information needed is not only restricted to financial information. Wallace (1993, p. 137), for example, states "some governments, as users of corporate financial reports, would wish to know if reporting enterprises are fulfilling their duties as good citizens". Hurwitz (1981, p. xi) also argues that these users need information by which they can ensure that their personal and/or group rights and privileges are reasonably protected or to complain if they are dissatisfied.

The above criticisms of the implementation of IAS and Anglo-Saxon systems as well as the unique needs of developing country users, have led to the view that developing countries require an accounting approach which can serve both social and economic needs and provide information to all groups with a legitimate interest in the enterprise. Chapter three discussed accountability as one of the fundamental prerequisites of the development process. Gharney (1993, p. 182) argues that under an accountability model, corporate reports would provide more appropriate information through a broader societal perception. A broader application of information contained in corporate reports is envisaged, with the emphasis shifting towards societal welfare. Thus, the accountability approach is a social concept, rather than a concept limited to economic matters (Gray, 1991). It is also seen as the best approach to pursue society's intermediate goals, such as equity and efficiency criteria (Tower, 1993, p. 67). This approach is consistent with the objective of Islamic accounting and accounting reports in Libya, and seems to provide more promise to the role that these accounting reports can play in the country's social and economic development than the present one based upon the Libyan Commercial Code and the UK and US

accounting systems. This conclusion is also supported by Samuels (1990, p. 79) in his paper concerning the development of an accounting system that, in his view, will be of greater use to developing countries than the present so-called 'conventional' accounting. Samuels (1990, p. 79) argues that "if accounting practice is to be a means of resolving social conflict it needs to be concerned with these issues".

A uniform accounting system seems to offer greater hope for social accounting than the Anglo-Saxon accounting system. According to Samuels (1984, p. 29), the French and Germans (who have adopted a uniform accounting system) have led the way in social accounting. Both these countries require companies to disclose information to workers and consumers. Reviewing French accounting reports, social accounting seems to be one of its important objectives. According to Nobes and Parker (1981, p. 224), the objectives of the French system are: improvement of fiscal control, systematic information for social accountants and standardisation of presentation in company financial statements.

As social accounting is considered by many researchers as a very important aspect that developing countries' financial accounting should disclose, the lead of France and Germany in this field provides further encouragement to developing countries to adopt a uniform accounting system. Jaggi (1973) in this regard believes that the experience of German firms will have an impact on social accounting disclosures in other countries.

According to Perera and Mathews (1990, p. 236), the advanced stage of Continental countries in regard to "social" or "employee" reporting, at both institutional and practical levels relative to Anglo-American countries can be explained to some extent in terms of their cultural differences, as both the USA and UK are oriented toward individualism, whereas France and Germany are relatively less individualist and more collectivist oriented, requiring business enterprises to be accountable to society by way of providing information (Perera and Mathews, 1990, p. 240). This therefore leads to clear differences in the dominant users of accounting reports in the two groups of countries. In France and Germany, due to the collective orientation,

different groups such as employees and trade unions, shareholders, community leaders, environmentalists etc., have influenced the orientation of companies' accounting reports in accordance with their cultural background which is more concerned with the social and economic aspects. As Libyan culture is also more collectivist than both the Anglo-Saxon and Continental countries, the relevance of uniform accounting with social accounting orientation to Libyan culture is more evident.

10.5.4- Uniform accounting and Development of Accounting Theory

The need to develop a framework of accounting theory to encourage the logical development of accounting principles and practices and to assess current practices has long been felt in Libya. The relevance of the uniform accounting system experienced by Continental countries to developing countries like Libya can be further demonstrated through an examination of the evolution approach to accounting, standards and principles. Reviewing the accounting literature indicates there is a general consensus that modern accounting first evolved through a descriptive approach in developed countries (particularly in the US and in Europe). Accounting principles and theories were deduced by individuals or groups through observing accounting as it is being practised and proceeding to construct generalisations and principles of accounting from these observations on the basis of recurring relationships [Whittington (1986, p. 7) and Scapens (1992, p. 68)]. Later, this approach was criticised by proponents of normative methodology on the basis that accounting standards and principles are deduced from the process of observing accounting practices, which are in turn profoundly influenced by the objectives and the environment within which the observations took place. Unfortunately, most of these observations by which the accounting theories and principles were deduced, took place in specific countries and at specific times (mainly the UK and US). Accounting practices in developing countries have rarely been subject to these observations. The inevitable result is that the majority of accounting theory and practice has been more closely related to the environment of developed countries.

According to Whittington, these researchers produced inductive theories, based on rationalisations of prevailing practices (Whittington 1986, p.7). Grady's Inventory of Generally Accepted Accounting Principles for Business Enterprises is an example of a descriptive approach to accounting. It took place in the US with the aim of listing and classifying those principles, practices, or standards on which there is little or no disagreement among business executives, professional accountants, and government officials. The sources of the principles listed were:

- ✦ the practices commonly found in business;
- ✦ the stock exchange requirements;
- ✦ accounting systems and accounting rulings of regulatory commissions;
- ✦ the Securities and Exchange Commission;
- ✦ opinions of accountants both practising and academic; and
- ✦ published opinions of the American Accounting Association and the American Institute of CPAs.

As the Generally Accepted Accounting Principles has been deduced on a historical basis at a specific time and in a specific country, adopting these principles within other countries is highly questionable. Gambling (1971) comments on this in connection with the possibilities of harmonisation, saying that "conventional accounting practice has been dictated by the requirements of western industrial capitalism".

Samuels (1990, p. 72), in regard to the relevance of a descriptive approach to developing countries as a means of building their own accounting theory and framework, states that:

" The early approach (descriptive approach) was based on a rationalisation of current practice. Clearly, this does not offer much hope to developing countries as their current practice is often inadequate, and in any case is usually based on an imported system."

The argument that the Anglo-Saxon accounting systems evolved as a consequence of a descriptive approach, whereas Continental countries developed on the basis of a normative approach is confirmed by Samuels (1985, p. 24), who argues that "the

Americans reached their conclusion inductively (which is similar to the UK) by reasoning from the particular to the general and the German reached theirs deductively (which is similar to France) by reasoning from the general to the particular”.

Watts and Zimmerman (1978, p. 131), in their criticism of the political pressure on the standard-setting bodies, argue that “these problems will be evident in any body whose role is to draw up standards for practice as a first priority, rather than being able to follow a more normative approach”. Thus, the use of the normative approach by most accounting researchers is justified on the grounds that changes are inevitable in the users' needs and the surrounding environment. The validity of an adopted accounting structure lies in its ability to encompass presently unforeseen circumstances, and indeed the structure itself should serve in the solution of new problems (McDonald, 1972, p. 67). Most normative accounting theories have arisen from dissatisfaction with the existing state of accounting as practised. The dissatisfactions sometimes arose from a failure in accounting to recognise new changes in the environment, and the problem of changing price levels as an example of this (Ibid p.68) . According to McDonald (1972, p. 67):

“Users change; the uses they make of information change; the economic and business environment changes. Thus by the very nature of things the accounting discipline is a dynamically changing one. It is natural then that considerable concern should be directed to what accounting ought to be as distinct from what it is now.”

Given the continuous environmental changes witnessed in Libya, combined with an incomplete accounting system and practices building an accounting system only on the basis of a descriptive approach seems to offer little hope. Establishing accounting systems on the basis of what ought to be (deductive approach) seems to be an essential part of the required accounting system in Libya. The uniform accounting approach is considered as a model with the main objective of providing a frame of reference, or a structure of accounting practice mainly built on the basis of what accounting ought to be rather than what it is, thus supporting the notion that a system of uniform accounting may be the only viable alternative available to Libya.

Finally one may add that when the procedures and methods of accounting are uniformly designed, more attention can be devoted on the theoretical aspects rather than on the practical matters of accounting which can facilitate the development of accounting theory in a more rational way.

10.6- Summary

There appears to be a need for accounting development in Libya, as revealed in earlier chapters. Although different approaches have been suggested in the literature for developing countries in developing their accounting system, in the case of Libya, self-reliance with external assistance appears to have the most promise of achieving an effective result. This is built on the basis that accounting is environmentally specific and the apparent lack of experience and qualified accounting professionals in Libya.

The identified similarities between Libya and France in some of the environmental aspects in general, and culture in particular, as well as the admired results of uniform accounting systems in some developed and developing countries, has led to the proposal of a uniform accounting system as an alternative approach to the development of accounting in Libya.

Thus, this chapter assessed the effectiveness of a uniform accounting system in Libya, by investigating its relevance to the unique Libyan environment on a variety of grounds, including political, economic, education, cultural and social issues, as well as the issue of the development of a basis of accounting theory. The uniform accounting system was found to be more relevant to Libya and indicates potential benefits for all of the investigated issues. A uniform accounting system indicates the features by which many of the problems encountered by the present accounting system and its users can be overcome. This conclusion is reinforced by Briston (1978) and Mueller (1968) who argue that due to the unique cultural, political, social

and economic environment of each country, a national uniform accounting system based on the particular requirements of each country should be pursued.

It is important to note that there are many accounting values or practices which are expected to be highly important and useful for improving the role of accounting in society regardless of the cultural values in which they are implemented. Thus, studying the relevance of any accounting values or practice to any culture should not end by proving consistency or inconsistency between cultural values and accounting practice. The study should go on to include the means by which the useful and important accounting practice or values can be implemented despite cultural conflict. No one can claim that a society with an individualism orientation is better than one with a collectivism orientation or vice versa. In addition, there can be no disagreement about the fact that disclosure of accounting information in accounting reports is necessary in any country regardless of their cultural orientation. Understanding the culture and orientation in a country will be helpful not only in determining the kind of information needed, but also in selecting the right method or approach. Countries with a strong uncertainty avoidance are expected to be more oriented towards secrecy and, as a result, accounting disclosure is expected to be low. Knowing this fact and orientation will be very important in selecting the approaches through which reasonable levels of disclosure can be guaranteed. It is important here to refer to Mckinnon (1985) who related the reluctance of Japanese companies to provide consolidated financial statements, as required by the Japanese Securities and Exchange Commission, to their cultural orientation, characterised by a strong and persistent resistance to public disclosure of corporate activities. As Japanese culture is characterised by preference for harmony over authority and consensus building over rushed decisions, legislating the disclosure of consolidated financial statements was a necessary choice to overcome this problem.

Chapter Eleven- Summary, Conclusion and Recommendations

11.1- Introduction

This study has argued that Libya is a developing country with a socialist ideology, whose government has direct involvement in economic activities through various public companies. The country has been continuously striving to achieve socio-economic development since its independence in the early 1950s. Despite the significant amount of the country's resources which have been devoted to remedying the inherited social and economic problems, achieving economic growth and the target of self-sufficiency, there is as yet little evidence that these targets have been achieved. In many cases, the achievements of companies towards the country's plans have come under criticism. There is a general agreement in the accounting literature that accounting has a potential role to play in a country's development process and some of them (e.g., Hunter, 1964, p. 58) have gone a step further by relating the economic problems in such a country to the accounting system applied therein. In Libya, accounting has been criticised for having a limited role in contributing to the country's socio-economic development.

This study has argued that, like other business practices, accounting (practices and regulation) is to a large extent environment bound, it is shaped and reflects particular characteristics which are unique to each country. The list of these characteristics is virtually infinite, ranging from economic and political to personal traits and values, even extending to institutional arrangements. Culture in particular has been identified as a significant factor which influences accounting. Thus the relative performance of a country's accounting systems in the socio-economic development process can be partly associated with the relevance of the accounting system to the environmental context in which it operates.

This study was conducted with the principal aim of gaining an initial understanding of the likely reason(s) for the seemingly low performance of Libya's accounting system (enterprise accounting in particular), and to suggest ways of improvement. To achieve this aim, the research objective was broken down into the following key components:

- 1) To investigate the main factors which have contributed to the evolution and shaping of the accounting system in Libya, and determine to what extent the underlying accounting system has interacted with its environment;
- 2) To assess the relationship between the present accounting system in Libya and its environmental factors, particularly culture. This should provide a basis for comparing the hypothetical model of Libyan accounting derived from the accounting literature, particularly Gray's (1988) theory, with the current accounting system; and
- 3) To investigate the extent to which Perera's (1989, p. 150) claim that "... given the circumstances prevailing in developing countries, a system of uniform accounting may be the only viable alternative", is true of Libya.

11.2- Summary

Working within the research objectives it was necessary for the study to examine some broad questions about the rationale and development of modern accounting and accounting regulation. Thus, the historical literature on the development of modern accounting, approaches to accounting regulation, and the characteristics and criticisms associated with each approach, were examined. This was followed by a detailed discussion of the historical development of accounting regulation in two different countries - the UK and France, to highlight the main role, characteristics and operating environments, as well as to consider criticisms of the accounting systems in both countries.

It was important to examine the key characteristics of the environmental factors in developing countries in general, and the extent to which these characteristics prevail in Libya. This was in addition to examining the origins, characteristics and role of accounting in the process of economic development in developing countries as well

as the potential role that accounting can play in a country's economic development process.

Examining the relationship between accounting and environmental factors, particularly the cultural factor, and how the latter can influence accounting was also necessary. This was to highlight, theoretically, the possible answers to such questions as: why differences in accounting arise between different countries and why the accounting systems of developed countries, adopted by many developing countries have not been entirely successful.

The Libyan accounting systems have not been included in any of the international surveys, classifications and reviews (see, for example, Price Waterhouse, 1979; Nair and Frank, 1980; Goodrich, 1982; Nobes and Parker, 1985). This was reinforced by a similar lack of research within the country about the origins and factors that have contributed to the formation of its present accounting system. The survey of accounting literature so far implies that "there is a need to uncover the origins and basic structure of the accounting system in each country, so that accounting can be shown in its dependence on, or shaping of, the underlying linguistic, political, social, and economic conditions" (Wallace and Gernon, 1991, p.215). An understanding of the origins and status of the accounting system in Libya was seen by the researcher as a first step to evaluate the performance of the accounting system and suggest possible ways for improvement.

Thus, it was necessary for the researcher to conduct field work in Libya to collect general data on Libyan, accounting, the environment, and the feasibility of improvement. Questionnaires and interviews were used to obtain the necessary information. This was in addition to reviewing accounting reports, related government documents, regulations and literature about Libya.

Part of the information collected was concentrated on identifying the main factors that have contributed to the evolution and development of accounting in Libya and the extent to which accounting plays its role in measuring and communicating

Libya's economic information to allow users to take rational decisions and enhance social welfare, and whether there is a need for action (develop, modify etc.) to be taken or not.

The accounting literature (e.g., Frank, 1979; Hendriksen, 1982; Bloom and Naciri, 1989) suggests that environmental factors have a direct bearing on the objectives of accounting and on the logical derivation of principles and rules in each country. This is expected to be the case in countries where accounting concepts and practices have evolved and developed as a response to environmental factors in which they operate. The investigation of the origin of accounting systems in developing countries showed the system to be a derivative of their former power. The accounting literature has led to the suggestion that the efficiency of the developing country accounting system may be partly associated with the extent of similarity in environmental factors between this country and those countries which provide the source of its adopted accounting system.

Differences between Libya and those countries which provide the source of its adopted accounting system in some environmental factors, suggested in the accounting literature to be crucial in shaping a countries' accounting systems, were investigated. This is to gain an insight into the issues which have inhibited the effective operation of the present accounting system. The study then moved on to focus on culture. Using Hofstede's cultural dimensions and Gray's accounting dimension (1) the relevance of the Anglo-Saxon based self-regulation accounting system to the Libyan culture was questioned; (2) to test Gray's theory, in predicting the likely nature of the Libyan accounting system.

The international accounting literature has also highlighted the influence of religion and organisational differences on the relevance of one country's accounting system to another. Thus, the study also examined this issue with regard to Libya in order to provide further support by which the transferability of the Anglo Saxon accounting system to a Libyan context can be evaluated.

It became evident from the study that Libya has major deficiencies and shortcomings in information provision. As a consequence, developing or adapting its accounting system became compelling, if it were to provide its users with the information they needed to ensure operational efficiency and personnel effectiveness. Thus, the study investigated different approaches to the development of accounting in Libya, particularly the uniform accounting system, with special emphasis on social accounting, and assessed its relevance to the environmental factors in Libya, particularly culture.

11.3- Conclusion

The review of the history of accounting indicated that accounting has developed dynamically in response to its environment. As the environmental context is different from one country to another, the expectation is that accounting would also vary in each country. The approach to accounting regulation is one of the apparent differences between countries. In some countries, the accounting profession plays a major role in shaping the standard setting process. In other countries, regulation is carried out through government agencies or legislation. The adoption of one approach or another is not environmentally free. It has been indicated by various researchers (Nobes, 1984; Bloom and Naciri, 1989; Perera, 1989; Nobes and Parker, 1991) that countries with broad shareholder ownership and capital markets with an orientation towards an individualism culture such as the UK and the US tend to have a strong and independent accounting profession (self-regulatory approach). Countries with broad government ownership and a socialist economy with an anti-individualism cultural orientation, such as that in Communist countries and some countries within Continental Europe, accounting is mainly regulated by the government and the accounting profession is weak.

In general, accounting in developing countries seems to follow the same path as in developed countries. Just as the accounting system of developed countries can be classified into Anglo-Saxon and non-Anglo-Saxon approaches, so can the accounting system inherited by developing countries (Wallace, 1993). Many reasons

have been given for this, not least the fact that most developing countries were subjected to long periods of colonisation. Many developing countries experienced economic problems after independence and have been continuously striving to improve the allocation of their scarce human, financial, and material resources in an attempt to achieve sustained economic growth (Mirghani, 1982). The lack of information provided by accounting systems in these countries is frequently considered as one of the most significant contributory factors to the persistence of economic problems (Enthoven, 1973). This is because achieving economic growth at both micro and macro levels is dependent, among other factors, on the information systems (Seiler, 1966).

Libya was excluded from all classification studies and little has been known about its accounting system. This study found that accounting in Libya has not developed as a result of its interaction with the environment in which it operates. The system was found to be developed in response to one environmental factor in particular, the relationship with Anglo-Saxon countries. The system was found to be a derivative of the UK and US in particular. This contrasts with the possibility of the system emerging and evolving as a consequence of environmental interaction in Libya. Therefore, the present accounting system and its regulatory approach in Libya have not been adopted to achieve relevance but simply imposed and inherited effectively from previous colonial powers. The Libyan accounting profession was left relatively free to develop accounting and auditing standards and government intervention was kept to a minimum, in line with the UK. The study found no evidence that the accounting profession has played any role in modifying or developing the adopted accounting system. There is no general framework for accounting, however, accounting systems in Libya continue to have the features of the UK and the US accounting systems. Thus, it is mainly oriented toward financial accounting and to serve the needs of a restricted set of users.

Investigating the quality of the current accounting information provided by Libyan companies revealed that this information does not meet the basic requirements of comparability, timeliness, reliability, understandability and relevance. Evidence of

the unsatisfactory nature of the current accounting system in Libya is also presented through an investigation of Libyan officials' opinions on the relevance of the present accounting information to their needs. The study revealed that the main users of accounting information in Libya require information beyond that of regular external financial reports, which by and large do not meet their needs in terms of building successful economic development plans, exercising control, constructing of national accounting statistics, and taking rational decisions. The financial reports for Libyan companies are restricted to purely monetary information and do not include most of the basic information which is needed at the macro level.

Development and planning in developing countries requires a high level of information on the economy, which can be largely provided by micro and macro accounting systems. In Libya, the linkage between the micro and macro accounting systems is neglected and there is no appreciation of the importance of a micro accounting system for the construction of the macro accounting system.

These findings suggest that accounting in Libya is still at a rudimentary stage and does not adequately measure and communicate economic information to allow users to take rational decisions. As a result, accounting's contribution in the country's economic development process and in enhancing social welfare, seems to be low. Although many factors may have contributed to this situation, the absence of a general accounting framework which provides a guideline for accounting development and which establishes an effective linkage between micro and macro accounting systems, must have had an impact.

The study revealed another factor which may explain the low performance of the Libyan accounting system i.e. the lack of consistency between the adopted accounting system in Libya and its environmental context, particularly that of culture. This was evident as i) the current accounting system in Libya was shown to be an adoption of an Anglo Saxon one, which is designed mainly to serve the environmental needs of those countries ii) the elements of the Libyan environment, such as economic, political, and accounting education and the profession of

accounting suggested that a significant contrast exists between the accounting needs of Libya's environment and the nature of the adopted accounting system. Thus, the irrelevance of Anglo-Saxon accounting to Libya is reinforced by their differences in the objectives of the accounting system, the main users, and the information required. Accounting in Libya is seen as having a more important or co-ordinating role than would be the case in the free market economy. Resource allocation, monitoring social and economic development plans, and the establishment of prices in Libya are all based on existing accounting reports rather than the mechanism of market forces. As a result, the central authority needs information beyond the regular external financial reports, which, by and large, do not meet their needs in terms of building successful economic development plans, exercising control, and taking rational decisions. Accounting in the UK has been oriented mainly to serve the needs of shareholders, potential investors, and creditors, who need information mainly to determine the profitability and financial position of the company, leading accounting in the UK to be mainly oriented toward external financial reporting. The other users, including government and government agencies, receive less attention in the UK accounting system.

In this study special emphasis was paid to culture to see whether the Anglo-Saxon accounting system based on a self-regulations approach does reflect any of the cultural characteristics of Libya. The study argued that the relevance of any accounting system to a country is not dependent only on its ability to provide the relevant information needed in that country, but that it is also conditioned by the capability of that system to be workable in that country. Relevance to cultural values was argued to be one of the key factors influencing the workability of any adopted accounting system. This is because, as Goodenough (1961) states, culture is "....standards for deciding what is,what can be,how one feels about doing it, People use their standards as guides for all the decisions, little as well as big, which they must make in the course of everyday life. As the members of a community go about their affairs, constantly making decisions in the light of their standards, patterns characterising the community as a whole are brought into being and maintained." Thus, "The skills so transferred from Anglo-American countries

may not work because they are culturally irrelevant or dysfunctional in the receiving countries context" (Perera, 1989, p. 52).

The importance of the cultural factor in influencing accounting was also attributed to the fact that culture is more than a unique environmental factor. It is an integral part of the other environmental factors such as economic, political, legal, management and social systems. In the case of Libya the importance of culture was also reinforced by the fact that in Libya all environmental factors, except culture, have changed and accounting has always been shown to have a limited role regardless of the changes that have taken place.

A discussion of Libyan social values on Hofstede's dimensions showed that Libya scores low on the individualism dimension, high on uncertainty avoidance and high on power distance. This is different from the cultural values of the country from which the adopted accounting system in Libya came. According to Hofstede (1984), the UK and the US both scored high on individualism, low on uncertainty avoidance and low on power distance. The main characteristics of the UK accounting system, according to Gray (1988) and Perera (1989), are high on professionalism, more flexible, low on conservatism and low in secrecy.

Following Gray's hypotheses, the likely nature of the Libyan accounting system was expected to be more oriented towards statutory control, uniformity, conservatism, and high in secrecy. This is expected to be the case if the current Libyan accounting system had emerged and been developed as a result of its environmental interaction. Although Libya is seen as having adopted the Anglo-Saxon accounting system, the findings of this study tend to support Gray's hypotheses. This is because despite an imported Anglo-Saxon accounting framework the underlying Libyan accounting values have been pulled towards orientations in line with statutory control, uniformity, conservatism, and low transparency. In many cases the adopted accounting system in Libya does not reflect its cultural values. There is a significant contrast between Libyan cultural value dimensions and the Anglo-Saxon accounting system. The expectation is that the current Libyan accounting system would be

different from the one witnessed now if it had emerged and been developed in Libya and by Libyans.

According to the findings of this study it may be true to suggest that the likely nature of the Libyan accounting system is closer to macro-uniform groups rather than the micro group which supports Gray's prediction. These findings are also in line with other classification studies. For example, the work of Mueller (1967); Seidler (1967); AAA (1977); Nobes (1983, 84) identified and classified within the macro accounting group, countries with characteristics of a socialist and centralised economy as well as broad social objectives, similar to the environmental factors that prevail in Libya.

The relevance of an Anglo-Saxon accounting system to Libya is again questioned on a cultural basis. This lack of relevance has contributed at least partly to the limited role played by the current accounting system in Libyan development processes.

The investigation of the relationship between accounting and the religious ethics prevailing in Libya, and the organisational structure and some management practices, provide further evidence of the irrelevance of the Anglo Saxon accounting system to Libya. The evidence within the various strands of the study leads to the conclusion that the current accounting system is not in tune with its environment. Therefore, it can be concluded that the Anglo-Saxon accounting system is not likely to be relevant to Libyan society.

Given the limited contribution of the accounting system in Libya to the country's socio-economic development, developing or modifying the accounting system becomes an urgent need. It was evident from this study that Libya has major deficiencies in information provision. It appears that financial reports provided in Libya need many improvements if they are to provide users with the information they need to ensure operational efficiency and personnel effectiveness. Two main factors were identified as contributing to the deficiencies of the Libyan accounting system. First is the absence of any agreed accounting standards and a general

framework for an accounting system in Libya, which could be used to provide guidance on how such systems can be maintained and developed and also make linkages between micro and macro accounting. The second is the inconsistency between the adopted accounting system and the country's environmental context, particularly culture. Therefore, any attempt to develop the accounting system should give special consideration to these two factors.

The study therefore argues that in Libya there is a need for an accounting system which achieves the following objectives:

- 1) Provision of a sound framework for an accounting system in Libya, which could be used to provide guidance on how such systems can be maintained and developed;
- 2) In Libya there is a need for an accounting system which appreciates the importance of micro accounting systems for the construction of the macro accounting system. This is needed to provide the basic accounting information for planning, implementation and control at all levels of the economy on both an internal and external basis. Needles, (1976) and Mirghani (1982) argued that any attempt to improve the quality of accounting in developing countries needs to consider not just the micro level, but also the requirements of the government for accounting information and the role of accounting in the country's economic development processes;
- 3) To provide information that facilitates the effective exercise of accountability. Companies and managers in Libya have an obligation to be accountable to the citizen for the state power and resources entrusted to them. Thus, as the study has demonstrated there is an increasing demand for companies to provide better financial and non financial information on their activities; and
- 4) Finally, and most importantly, in order for the developed system to be workable in Libya, it should be relevant to the cultural values in Libya.

It has been suggested in the literature that those countries which do not wish to develop their own accounting systems in isolation or do not have the necessary resources to do so, can benefit from the experience of countries in the same group within the classification studies. Based on a claim that accounting is environmentally specific and the lack of qualified accounting professionals and experience in Libya, self-reliance with external assistance was seen as an appropriate approach for developing accounting in Libya.

The country falls within the classification of the macro accounting group which is headed by France. The French uniform accounting system has admirable results in some developed and developing countries, the uniform accounting system was therefore selected as a potential alternative for developing accounting in Libya. The study necessarily emphasised that Libya should not import an entire accounting system from any country or it would repeat prior mistakes. Nor should Libya import any accounting ideas without weighing them against national objectives, environment needs and cultural values.

Weighing the above objectives against the feasibility of a uniform approach in Libya provided a strong argument for further exploration. By applying a uniform accounting system in Libya, the study indicated that many of its current accounting problems can be resolved. For instance, the problems of a lack of a general framework and guidance identified earlier, can be solved by adopting a uniform accounting system. The uniform accounting system is vital for supplying data in a practicable manner regarding all segments of the economy. Also, under a uniform accounting system, much of the needed information at the macro level could be useful in achieving for example:

- ✦ comparability between companies;
- ✦ compiling national income accounts;
- ✦ developing input-output tables on a sectoral basis;
- ✦ establishing the flow of funds statements of all public sector companies; and

- ♦ providing a sound basis for performance evaluation and control processes. This is instead of the estimation process that currently takes place in Libya.

Enthoven (1973, p. 236) argues that a uniform accounting system facilitates comparability in (1) structured analysis of enterprises; (2) efficiency measurements and evaluation activities; and (3) ex-ante and ex-post investment appraisals and related economic decisions.

The relevance of a uniform accounting system to a country like Libya has been reinforced on the grounds that Libya is a centralised developing country which is dominated by public companies, with no capital market. Nobes and Parker (1995, p. 55) argue that, “it may well be that in the absence of large and listed companies of many private shareholders and of a strong profession, the use of an accounting plan is more suitable than Anglo-Saxon judgmental accounting principles”.

The study also indicated that the adoption of uniform accounting may help the country to overcome problems such as:

- a) Staff training costs which can be reduced as new staff can be trained on standard procedural manuals that provide a reference base for dealing with most recording problems;
- b) The use of standard procedure manuals which guarantees minimum quality standards in accounting system performance;
- c) Specialisation of labour which permits high quality staff to concentrate on difficult problems, and less experienced staff to work on routine standardised procedures; and
- d) Monthly and year-end financial statements which can be routinely prepared through computer programmes that process data flowing from standardised accounting systems.

The efficiency of any system is highly dependent on its acceptance by the dominant collective mental programming in that country. Inconsistency between this collective mental programming and the developed system is expected to hamper the

implementation of any such system. The researcher highlighted that in order to develop an accounting system relevant to cultural values, the country should not simply adopt all the accounting practices that are relevant to its cultural orientation and reject the ones which are irrelevant regardless of the usefulness of such practice. The aim is to facilitate the workability of such important practices even though they may not be consistent with cultural values. Knowing the cultural orientation and its impact on accounting practices makes it possible to take the necessary measures by which the right or relevant method or practice can be made to work. For example, countries with strong uncertainty avoidance are expected to be more oriented towards secrecy and as a result, accounting disclosure is expected to be low. However, knowing this can be very important in selecting the approaches by which reasonable levels of disclosure can be guaranteed.

Using Hofstede's social value dimensions and Gray's correspondent accounting value dimensions, the study investigated whether the uniform accounting system does reflect any of the Libyan cultural characteristics. The study found consistency between the uniform accounting system and all of Libya's cultural dimensions. In fact, applying uniform accounting was found to provide a good alternative from a cultural perspective by which relevant accounting practices are facilitated and the abuse of power by accountants and managers can be reduced.

The relevance of a uniform accounting system to the Libyan environment is supported also on the grounds that the study indicated that companies in Libya need to be both economically and socially responsible. To discharge this responsibility, companies should provide complete and relevant information to those to whom they are accountable. Companies in Libya as presented in chapter six, are accountable not only to the owners but also to all parties that have a legitimate right in these companies. This is expanded to include all the stakeholders, including the government, local community, employees, customers and the public. Thus the information needed is not restricted to financial information. For example, the government, as users of corporate financial reports, would wish to know if reporting enterprises are fulfilling their duties as good citizens (Wallace, 1993, p. 137). These

users need information by which they can ensure that their personal and/or group rights and privileges are reasonably protected or to complain if they are dissatisfied (Hurwitz, 1981, p. xi).

The study indicated that a uniform accounting system has a greater capacity to include information related to accountability and social responsibility than the Anglo-Saxon accounting system. This is reinforced by evidence from the French and German accounting systems (which have adopted a uniform accounting system). They have led the way in social accounting and can be seen to offer much hope for social accounting (Samuels 1984, p. 29). A review of French accounting reports shows that social accounting seems to be a key objective. According to Nobes and Parker (1981, p. 224), the objectives of the French system are: improvement of fiscal control, systematic information for social accounts and standardisation of presentation in company financial statements.

The relevance of the uniform accounting system to developing countries including Libya, was further demonstrated through an examination of the evolutionary approach to accounting theory, standards and principles. The continuous environmental changes witnessed in Libya combined with incomplete accounting systems and practices from which one can develop a complete accounting system, means that building an accounting system only on the basis of the descriptive approach seems to offer little hope. Thus the study concluded that Libya should develop its accounting system on the basis of what ought to be (normative approach). The uniform accounting approach is considered as an appropriate model to provide a frame of reference for accounting structures and practice, and is based mainly on the premise of what accounting ought to be rather than what it is. This supports the notion that a system of uniform accounting may be the only viable alternative available to Libya.

Finally, the main results of the study can be summarised as follows:

1. The current accounting system in Libya is a derivative of an Anglo-Saxon one.
 - This contrasts with the possibility of the system emerging and evolving as a consequence of its environmental interaction.
2. The current adopted accounting system in Libya has not been subjected through time to any substantial change or adaptations to be Libyanised.
3. Although laws, accounting education and the accounting profession, have played a role in the creation of accounting in Libya, they have substantially retained the Anglo Saxon approach and have played no obvious role in developing or adapting accounting in Libya. This is reflected in the following:
 - a) The first laws and regulations which were implemented in Libya and having a direct impact on accounting were imported from countries with a capitalist orientation.
 - b) Although changes have taken place in some of the laws and regulations after the country's independence, they were not detailed enough to orient accounting toward the new environmental needs in Libya.
 - c) Accounting education was first introduced to Libya under the United Nations umbrella with British and American influences.
 - d) There is no evidence of any serious changes or modifications to the accounting education in Libya since it was established in the early 1950s.
 - e) Accounting education in Libya has a UK and US bias, with only marginal relevance to the Libyan environment.
 - f) The accounting profession in Libya is weak and plays no role in developing accounting and auditing standards for Libya, nor has it established a sound fundamental basis for an accounting framework.
4. The study indicates that the accounting system in Libya plays a limited role in measuring and communicating reliable, timely, relevant and comparable economic information which allow users to take rational decisions. As a result,

the contribution of accounting to the country's economic development process and enhancing social welfare seems to be low.

5. Two main reasons seem to have contributed to the limited role of the current accounting system in Libya:
 - a) The absence of an authorised accounting framework to provide guidance and establish a link between micro and macro accounting; and
 - b) The inconsistency between the accounting system and the environmental context in which it operates.
6. A priori, it is not necessarily the case that an Anglo Saxon self-regulation approach is the best system for Libya because:
 - a) It has proved to be deficient in providing a general accounting framework and encouraging integration between micro and macro accounting in the country.
 - b) Self-regulation has been derived and applied within capitalist economies, and therefore, one would not necessarily expect it to be applicable within non-capitalist economies;
 - c) The system is not used in those countries which are dominated by a socialist economy, which is the direction that Libya is heading towards;
 - d) The Anglo-Saxon accounting system emphasises external financial reporting to the virtual exclusion of other accounting areas. Accounting in Anglo-Saxon countries is oriented mainly to serve the interest of a limited group of users such as shareholders and potential investors;
 - e) The differences between Libya and those countries which provide the source of its current accounting system is evident in most economic, political, and social aspects;
 - f) Libya needs accounting which integrates all branches of accounting such as enterprise accounting, government accounting and social accounting, showing the financial and social costs and benefits generated by economic activities; and
 - g) More specifically, according to the cultural values of the accounting subculture, the Anglo-Saxon model of accounting seems to be irrelevant to the underlying cultural environment of the country. Thus, given the cultural and other

differences between Libya and for example the UK, the self regulation approach is not the most suitable in the case of Libya.

7. Gray's hypotheses in predicting the likely nature of a country's accounting system on the basis of culture are supported in this study. The accounting values in Libya are found to be more closely aligned to the macro-uniform group headed by France, than to the micro group.
8. There is an urgent need for the adopted accounting system in Libya to be developed or modified in order to improve its role in the country's development processes.
9. Given that accounting is environmentally specific and that there is a lack of qualified accounting professionals and relevant experience in Libya, self-reliance with external assistance was seen as an appropriate approach for developing accounting in Libya.
10. The study indicated that a broadly uniform model of accounting will be more useful in Libya because:
 - a) A sound national plan and effective government policies can create a linkage between micro and macro accounting, which would enable more accurate and reliable national accounting statistics to be constructed;
 - b) The development and regulation of accounting in Libya cannot, for many reasons (including self-interest and culture) be left to the accounting profession alone;
 - c) Consistency is apparent between the characteristics of a uniform accounting system and the Libyan environment;
 - d) According to the cultural values in relation with the accounting subculture, the uniform accounting model seems to be in tune with the underlying cultural values;
 - e) A uniform accounting system can help the country overcome problems such as the shortage of accountants, facilitating training for management and computerisation of the system;

- f) A uniform accounting system seems to have the capacity to include information related to accountability and social responsibility more than the Anglo-Saxon accounting system;
 - g) A broader application of information contained within corporate reports is envisioned with emphasis shifting toward social welfare which can meet efficiency and equity goals; and
 - h) Developing a framework of accounting theory which encourages the logical development of accounting principles in Libya seems to be enhanced by the adoption of a uniform accounting system.
11. Considering the shortcomings of the current Libyan accounting system and the main features of a uniform accounting system, this study supports the notion that a system of uniform accounting may be the only viable alternative available to Libya.

11.4- Recommendations

One important step to solve the problems associated with the current accounting system in Libya, is to question its relevance to the Libyan environmental context, particularly culture. To do so, there is a need to increase the awareness of the government in general, and accountants in particular, about the relationship between accounting and its environment.

It is widely recognised that accounting education is a very important tool for increasing this awareness. By placing more emphasis on the teaching of technical and professional matters, such as international accounting aspects including approaches to accounting regulation, the relationship between accounting and its environment, the theory underlying uniformity, and its evolutionary development in various societies will produce well-qualified people who are aware of the available alternatives for developing the accounting system.

However, accountants have to be trained to provide relevant, adequate and accurate information, which is related to the country's environment in general and to its socio-economic and political affairs in particular. Libya should continue to give increasing attention to the improvement of its accounting systems in relation to the needs of economic development plans. This is reinforced by Enthoven (1965, p.216)

“Accountants will have to become more aware of the economic meaning and use of accountancy than before, and should be equipped to assist in economic analysis and programming. The role of accountancy in the future might well extend itself to the whole economic sphere, and proper accounting information might even create something of a revolution in our economic thinking and policies. One thing at any rate is sure: a greater exposure of accountants to economic realities, and conversely a better insight by economists into the nature of accountancy, are among the urgent needs of world economic development.”

Enthoven (1975) stresses that there is a need for each country to make an endogenous effort to develop accounting fundamentals and conditions suitable for gradual adaptation of greater uniformity. Due to a lack of trained personnel, it will be difficult to establish the new system immediately, and there will need to be a significant transitional period. To alleviate this problem, it may be good for the country to gradually adopt a uniform accounting system on a sectoral basis before it applies it to the economy as a whole.

Generally speaking, a well educated and competent accounting profession is overdue in most developing countries, including Libya, and it should form an integral part of the continuing efforts toward establishing a more effective profession. Recognising the fact that the accountants' profession in Libya has much to gain from the current situation, it is recommended that the development of the current accounting system should not be left in the hands of this profession alone, because such development may not be seen to be in their best interests.

Establishing an accepted set of accounting standards or plan is the foundation of developing accounting systems in any country and is urgently needed in Libya. Thus the initial concern of the present accounting profession in Libya should be devoted to

this regard. However, this development, as mentioned earlier, should not be left entirely in the hands of the accounting profession. Good co-operation and co-ordination with higher education institutes is needed. This is supported by the claim raised in this study that the development of accounting in developing countries in general and Libya in particular, should not be based only on the descriptive approach, but on both descriptive and normative approaches (where the former represent the accounting profession and the latter the academic group). McDonald (1972, p. 68-69) calls the descriptive approach in accounting as “theories of accounting” which tend to be relatively complex. This is because the theory must serve to bolster and support the detailed procedures and rules which are in fact used. Those concerned with theories of accounting (primarily practitioners) are trained to operate in a particular way and must operate in a real-world environment. On the other hand, McDonald calls the normative approach in accounting “theories for accounting” which concentrate much more on objectives and theoretical structure and much less on the detailed rules necessary for implementation. Those concerned with theories for accounting (mainly academics) are largely concerned with education for the reasonably long term rather than technical training for immediate on-the-job application. McDonald concluded that if change is to take place, accommodation is needed on both sides.

11.5- Future Research

The model applied in this research in investigating the relationship between accounting values and culture in Libya was adopted from Gray’s model (1988). This model has not been extensively tested empirically within one country, and therefore further improvements may be necessary through further research.

The role of accounting in economic development is almost entirely neglected in Libya. Therefore, there is a need for more research to convince the local government, managers, and accountants that accounting information is important and useful for economic development. There is also a need for further research to evaluate the alternative approaches to accounting development including the

relevance of International Accounting Standards, using different criteria to those explored in this study to achieve an effective role for accounting in Libyan socio-economic development processes.

Before adopting a general framework of accounting, based on a uniform system, there is a need for more research to be conducted to identify the main users of accounting information in Libya; the type of information required by those users; and the way in which an effective link between micro and macro accounting in the country can be achieved.

There is also a need for research to expand the argument and model of this study to include accounting in Libya at all levels, such as government accounting and national accounting.

As one of the criticisms of the adaptation of the uniform accounting system is built on the cost associated with the implementation of the system, there is a need for further research to study the independence of external auditors in Libya with the cost and benefit of auditing reports in Libya. This would allow comparison with the cost associated with the implementation of a uniform accounting system in Libya.

While this study has highlighted some of the issues with regard to the relationship between the accounting system and the prevailing features of organisational structures and management style, there is a need for further and large scale research to increase the understanding of the required accounting system to avoid any potential contradiction between the accounting system and its immediate environmental context.

11.6- Limitations of the study

It is important to recognise the limitations inherent within the research study. In this study there are some limitations which stem from three sources:

- 1) available literature;
- 2) selection of sample; and
- 3) ambiguities of cultural definition and consequent measurement.

There were several difficulties encountered by the researcher during the field work. The lack of literature pertaining to accounting in the context of Libya and the dearth of studies conducted in this area, necessitated the acquisition of some basic information through questionnaires and interviews with senior professional accountants, managers and some users of accounting reports. However, there were also other problems. For example, management in Libya is secretive and highly suspicious of outside inquiries despite the researcher's assurances that the research was for academic purposes only, and that the identity of participants would not be disclosed. (As some of the participants perceived the researcher as from inside the profession with detailed accounting awareness on related accounting matters, this increased the possibility that their answers lacked objectivity).

The sample chosen excluded the oil sector. This is because the oil industry is subjected to a specific law (petroleum law 1955). Moreover, the oil industry has much more interaction with multi-national companies and as such, can not be seen as representative of Libyan enterprises. A further limitation is the geographic focus of the study in the Northwest. However, there is no evidence to suggest the area is unrepresentative of the country.

The definition of culture is far from straightforward (see chapter four). In order to progress the study, it is necessary to focus on a defensible but workable definition of culture that can be related to the Libyan environment. The definition and consequent dimensions in the work of Hofstede (1980) coupled with the development of Gray's framework provide a logical and coherent tool for defining and assessing culture in Libya.

The application of Gray's model within one country has only been undertaken infrequently. The measurement criteria applied in this research in investigating the

relationship between accounting values and culture in Libya were adopted on the basis of the accounting literature and its workability in the Libyan case. This naturally impacts on the analysis of the data gathered and is therefore subject to the limitations associated with this work.

The overall approach of looking at Libya as a case study in which a number of tools have been used to gather and analyse data, restricts the ability to generalise the results of this study beyond Libya. However, the study can form the basis for further analysis of other developing countries. The insight that the study gives to the development of accounting in Libya, however, is a worthy objective in itself.

In Libya, as in many other developing countries, the problems faced by socio-economic development go beyond accounting and are due to many factors including, educational, political, social, and economic factors. Therefore, the study does not claim that the limited role played by the current accounting system can be related only to the currently adopted accounting system itself, but is rather a combination of factors.

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Appendices

Appendix (1)

Required Courses for Bachelor in Accounting department Garyounis University

1- Compulsory courses

a)-The compulsory core courses

	S/No	Subject Title	H/W	Pre-requisite
	100	Arabic Language	3	
	101	Islamic Studies	3	
	102	Civil Law	4	
	103	English Language I	3	
	104	English Language II	3	103
	108	Third world Theory	3	
	110	Principles of Economic I	3	
	111	Principles of Economic II	3	110
	120	Principles of Management	3	
	130	Principles of Accounting I	3	
	131	Principles of Accounting II	3	130
	140	Statistic Foundation I	3	
	141	Statistic Foundation II	3	140
	142	Basic Math Analysis I	3	
	143	Basic Math Analysis II	3	142
	150	Principles of Political Science	3	
	151	Popular administration	3	120
		Total of Credit Hours	53	

b)- Specialised Compulsory courses

	S/N	Subject Title	H/W	Pre-requisite
	230	Intermediate Accounting	3	131
	231	Intermediate Accounting	3	230
	235	Principles of Computer	3	131
	330	Advanced Accounting	3	231
	331	Accounting for Branches and Departments	3	231
	333	Production Cost accounting	4	231
	335	Taxation Accounting	3	231
	336	Petroleum Accounting	3	231
	337	Insurance & Banking Accounting	3	231
	339	Public Fund Accounting	3	335
	430	Management Accounting	3	333
	431	Auditing	4	235-231
	435	Design of Accounting Systems	3	235-231
		Total of Credit Hours	41	

c)- Non-Specialised Compulsory Courses

	S/No	Subject Title	H/W	Pre-requisite
	202	Commercial Law	3	102
	210	Micro Economic	3	111
	220	Production Management	3	120
	320	Financial Management	3	230-120
	322	Operation Research	3	143-220
		Total of Credit Hours	15	

2-Elective Courses

Student should select (14) Hours from both tables, with the condition that the selected hours should contains at least (6) hours fro each table

a)- Elective Specialised Courses

	S/No	Subject Title	H/W	Pre-requisite
	433	Research Methodology	3	P/D
	332	Agriculture Accounting	2	231
	334	Accounting for Services Projects	2	231
	338	Financial Statement Analysis	3	231
	434	The Use of Computer in Accounting	3	431
	436	Applied accounting	3	P/D
	530	Advance Accounting	3	331-330
	533	Production Cost accounting	3	333
	539	Studies in Accounting	3	P/D
		Total of Credit Hours	25	

b)- Elective Non-Specialised Courses

	S/No	Subject Title	H/W	Pre-requisite
	105	English Language in Accounting	3	104
	211	Macro Economic	3	111
	222	Behaviour Science	3	120
	223	Principles of Marketing	3	222
	225	Personnel Management	3	222
	240	Introduction to Probability Theory	3	143-140
	241	Principles of Statistic Induction	3	240
	313	Money & Banking	3	111
	318	Public Finance	3	111
	344	Sampling Method	3	241
		Total of Credit Hours	29	

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S/No= Subject Number

H/W= Credit Hours per Week

P/D= permission fro the Department



Mill Hill Lane
Durham City
DH1 3LB
United Kingdom

Appendix (2)

To whom it may concern:

Mr. Buzied is a registered PhD student in accounting, studying the topic of Enterprise accounting and its environmental context particularly culture: The case of Libya.

In order to carry out his research, he has compiled questionnaires and it would be greatly appreciated if you could assist him by completing these questionnaires when he is in Libya undertaking further research for his thesis

Thank you for your assistance

Professor

R. Dixon

Appendix (3)

The Covering Letter

In the name of Allah

Dear respondents

With gratitude

The outcomes of an accounting system in any economic entity are the accounting reports and financial statements which aim to provide information about the economic entity to different groups of users (e.g., management, owners, investors, creditors, local community, society at large etc.)

Wherever these accounting reports and financial statements contain relevant and useful information to these group of users in general and without bias toward any specific group on the account of others, the greater will be the importance and potential use of this information in rationalising the decision-making process.

The questions contained in this questionnaire aim to study and examine the nature and relevance of the outcome of the present accounting systems in Libyan companies to the needs and culture of those groups of users in Libya in general. The study's aim is scientific only and in no way will the name of your company or yourself be reported.

Thus, your time and effort spent in answering the questions in this questionnaire, with diligence and objectivity, will help the researcher to reach real findings which reflect the nature of this study and contribute in one way or another in the development of the Libyan accounting system and its outcome.

With grateful thanks and appreciation for you co-operation

M.Buzied

Durham University - Bsiness School

Appendix (4)

Questionnaires to Professional Accountants In Libya

Part 1. General background information

#1. What is your education background

a- Vocational qualification in accounting

☐
☐

c- Master degree

☐
☐

b- Bacalaureate in accounting

d- PhD

2. Place of study

a- Libya

☐
☐

c- Arab countries

☐
☐

b- UK or US

d- others

3. For how long has been your office in business

a- 1-5

☐
☐

c- More than 10

☐
☐

b- 5-10

Part 2 General information about accounting regulations and practices

1. According to which of the following conditions did you obtain your licence to practise as public accountants

a-	Sit for an examination	<input type="checkbox"/>
b-	Hold BA with 5 years experience	<input type="checkbox"/>
c-	Hold Master	<input type="checkbox"/>
d-	Hold PhD	<input type="checkbox"/>
e-	others	<input type="checkbox"/>

#2. Please indicate to what extent your work involves the following services

(1 is very rare and 5 very frequent)

		1	2	3	4	5
a-	Preparing financial reports					
b-	Auditing financial reports					
c-	Tax services					
d-	Solvency and Liquidation					
e-	Consultations on different accounting issues					
f-	System design and installation					
g-	Management consulting					
h-	Other services (please specify)					

#3. Please indicate the frequency of the following ways in obtaining new work.

(1 is very rare and 5 very frequent)

		1	2	3	4	5
a-	Direct personal contact with companies					
b-	Invitation from company to bid for work					
c-	Through Institute of Public Control					
d-	Others (please specify)					

#4- Please indicate the most frequent basis of determining your total work fees

(1 is very rare and 5 very frequent)

		1	2	3	4	5
a-	Direct negotiation with the company's management					
b-	Fixed percentage determined by laws or regulation					
c-	By Institute of Public Control					
d-	others please specify					

5- Is there an agreed set of accounting and auditing standards in Libya which provide a general framework for accounting practices?

Yes	No

#6- The following propositions are related to your main concerns when auditing a company's financial reports. Please tick the box for each proposition to indicate to what extent you agree or disagree with it (1 is not important at all, and 5 is very important).

		1	2	3	4	5
a-	The financial reports comply with General Accepted Accounting Standards					
b-	The financial reports comply with Accounting Standards and pronouncements issued by LAAA					
c-	The annual financial statements comply with Libyan Laws and regulation					
d-	The financial accounting reports provide useful and relevant information for the users of accounting reports					
	others (please specify)					

7- According to your experience in auditing companies' financial reports, to what extent do you think companies in Libya have an effective internal control system (1 not effective at all and 5 is very effective)

1	2	3	4	5

#8. Through your experience in either auditing or preparing financial reports for Libyan companies, to what extent do you think there is a similarity or consistency between companies running similar activities in the following factors (1 is very low and 5 is very high).

		1	2	3	4	5
a-	Form and presentation of the financial reports					
b-	Information disclosed					
c-	Accounting standard and principles					
d-	Accounting methods					

#9- If you agree that there is high variance in any of the factors in question 8, which of the following reasons do you think lie behind it.

a-	The absence of sufficient accounting regulation	
b-	Accountants different educational background	
c-	As a response to the company's type of activities	
d-	Others please specify	

10- To what extent do think the Libyan Accounting Profession achieves its role in the following aspects (1 very limited role and 5 is very important role)

		1	2	3	4	5
a-	Developing accounting standards					
b-	Developing auditing standards and a code of ethics					
c-	Conducting effective research programmes to help develop or modify the accounting system to be more useful and relevant to the Libyan environment					
d-	Issuing instructions about accounting practice and methods					
e-	Issuing recommendations relating to specific controversial accounting issues					
f-	Controlling accounting practice and policy in Libya					
g-	Setting legislation concerning the accounting profession in Libya which deals sufficiently with the subject of membership					
h	Training accountants to cope with the country's environment					
I-	Create awareness of the relevance of the present accounting reports to Libyan culture					
j-	Issuing official pronouncements for government auditors					
k-	Monitoring accounting education and training in the country					
l-	Involved in guiding the government (Secretary of Finance and other related government agencies) in drafting laws					

#11- To regulate and establish a set of accounting standards a country can choose between two main approaches, a self regulation approach in which accounting is regulated by private organisation and government intervention in accounting regulation is kept to a minimum, as is the case in the UK and US, or a statutory approach in which a highly structured accounting system is adopted under government supervision with a limited role for private organisations, such as is the case in France and Germany. Please indicate which of these approaches you think is most suitable in developing accounting in Libya.

a- Self regulation approach

b- Statutory approach

Appendix (5)

Questionnaires to Company accountants

Part 1. General information about the respondent

Position in the organisation:.....

1. What is your educational background

a- Vocational qualification in accounting

☐
☐

c- Master degree or more

☐
☐

b- Baccalaureate in accounting

d- others

2. Place of study

a- Libya

☐
☐

c- Arab countries

☐
☐

b- UK or US

d- others

3. For how many years you have been working as an accountant in Libya

a- 1-5

☐
☐

c- More than 10

☐

b- 5-10

4. For how long has been your company in business

a- 1-5

☐
☐

c- More than 10

☐

b- 5-10

5. What type of activity your company is engaged in.....

Part 2. General Information about accounting practice and reports.

#1- which of the following reports are prepared by your company

- a- Income Statement
- b- Profit and loss accounts
- c- Horizontal Balance Sheet
- d- Vertical Balance Sheet
- e- Statement of changes in financial position
- f- Cash Flow statement
- g- Value-added report
- h- others

#2- Which of the following methods is used by your company in current assets valuation

- a- Lower of cost (purchase price or production cost) or market value
- b- Cost value
- c- Market value
- d- Others

#3- Which of the following methods is used by your company for valuing Fixed Assets

- a- Historical cost
- b- Modified Historical
- c- Others

#4- Which of the following inventory costing methods does your company use

- a- L.I.F.O
- b- F.I.F.O
- c- Weighted Average
- d- Others

#5- Which of the following depreciation methods for Fixed Assets is used by your company

- a- Double declining balance
- b- Declining balance
- c- Straight line method
- d- Others

#6- Does your company disclose information about the following

- a- Disclosure about the adopted method for inventory valuation
- b- Disclosure about the adopted method for short term investment valuation
- c- Disclosure about other methods which are not used in above a and c.
- d- Disclosure about methods used for Fixed Assets depreciation

Yes	No

#7- Does your company provide comparative information from previous years in its current financial reports.

Yes	No

#8- How does your company treat the cost of Research and Development (if it exists)

- a- Capitalise the cost
- b- Expense the cost
- c- Others (please specify)

#9- Please indicate the extent to which each of these methods are used by your company for recognition of expenses (1 is 'very infrequent' and 5 'very frequent').

		1	2	3	4	5
a-	Recognised as expended when anticipated					
b-	Recognised as expended when paid in advance					
c-	Recognised as expended when legally obliged/incurred					
d-	Recognised as expended when paid later					
e-	others (please specify)					

#10- Which of the followin methods is used by your company in classifying accumulated depreciation of fixed assets.

a-	Reported in the Assets section deducted from Fixed assets	
b-	reported in the Liabilities section	
c-	others (please specify)	

#11- How does your company classify the provision of doubtful debts.

a-	Reported in the Assets section deducted from current debts	
b-	Reported in the liabilities section	
c-	Others (please specify)	

#12- Which of the following criteria are adopted by your company for distinguishing between capital expenses and revenue expenses.

a-	Production life of the expense	
b-	The amount of expense	
c-	Both a and b	
d-	Others	
e-		

#13- How does your company treat extra-ordinary items in the financial statements.

a-	Include within the company's operating revenue and expenses without any note to the accounts	
b-	Include within the company's operating revenue and expenses and make a note to the accounts	
c-	Disclosed in a separate section within the company's financial reports	
d-	Others (please specify)	

#14- As the rate of inflation is very high in Libya, which of the following methods have been adopted by your company to adjust its financial reports for the impact of inflation

a-	Prepare another financial statements on the basis of current cost or other relevant method.	
c-	Disclosed additional information about the current value of companies assets and income generated in the historical cost financial statements	
d-	Others please specify	

#15- Does your company prepare the following management and cost accounting methods

		Yes	No
a-	Standard costing and Variance Analysis		
b-	Breakdown of total cost to variable and fixed		
c-	Budget preparation		
d-	Target costs		
e-	Economic order quantities for stock control		
f-	break-even point		
g-	Others mathematical and statistical models please specify		

#16- If your company was owned by foreigners and was later nationalised, do you think that your company has made any important changes in the accounting system after nationalisation

Yes	No

#17. If your answer is Yes in question 16, to what extent has your company made changes in the following factors from the previous system (1 is very small and 5 very important)

		1	2	3	4	5
a-	Accounting records and ledgers					
b-	Accounting standards and principles					
c-	Accounting methods					
d-	Accounting disclosure policy					
e-	Forms and contents of accounting reports					
F-	Type of accounting reports prepared					

#18. To what extent does your company's financial reports disclose information about the following aspects (1 is very small and 5 very important)

		1	2	3	4	5
a-	Employment by type of labour; wages and salaries					
b-	Information on recruitment and training					
c-	Company's participation in improving the welfare of employees, community and society in general					
d-	Proportion of raw material and components used in production which have been imported					
e-	Statement of funds flow with the government					
f-	Company's payment of employees' compensation in kind					
g-	Company's productive capacity, planned and actual out-put in physical and monetary terms					
h-	Adapted value added statement					
i-	Information related to the standards of product quality					
j-	Information related to environmental pollution					
k-	Information related to energy usage					
l-	Information related to foreign currency flows, receipts or expenditures generated, by the company					
m-	Information related to the proportion of market share meet by the company					
n-	Information related to company's ability to continue in business					
o-	Information about jobs created by the company					
p-	Information related to natural resources conservation					
q-	Information related to industrial trends					
r-	Information related to regional distribution of assets					
s-	Information related to regional flow of funds					

#19- If your answer is low in any of the items in question 18, to what extent do you think the cost of producing the above information prevents your company from disclosing it. (1 is not related at all and 5 very important).

1	2	3	4	5

#20- To what extent has your company made important changes in the following factors during the last 10 years. (1 is very small and 5 very important).

a-	Accounting records and ledgers	1	2	3	4	5
b-	Accounting standards and principles					
c-	Accounting methods					
d-	Accounting disclosure policy					
e-	Forms and contents of accounting reports					
F-	Type of accounting reports					

#21- If you think that your company has made important changes in the items presented in question 20, did your company make changes in the following methods.

		Yes	No
a-	Inventory costing method		
b-	Methods of valuing year end's Inventory		
c-	Methods of valuing short term investment		
d-	Methods of valuing Fixed Assets		
e-	Methods of Fixed Assets depreciation		
f-	From Historical Cost to Current or Replacement Cost		

Part three. Accountants' view of different issues

#1- When you prepare the present accounting reports to what extent do you rely on the following sources as main guidelines. (1 is not at all and 5 very important)

		1	2	3	4	5
a-	Libyan's law and regulations					
b-	The accounting pronouncements of the Libyan accounting profession					
c-	Following the company's previous procedures					
d-	Generally Accepted Accounting Standards					
e-	Others (please specify)					

#2- Have you or one of your staff participated in;

		yes	No
a-	Training programmes to understand the information needed by the Libyan environment		
b-	Research programmes about developing Libyan accounting relevance to the Libyan environment		

#3- The following propositions are about the current accounting system in Libya, please indicate to what extent you agree or disagree with them (1 is strongly disagree and 5 strongly agree)

		1	2	3	4	5
a-	The present accounting system is suitable to the Libyan environment and there is no need for reform					
b-	The present accounting system needs to be modified in order to be more effective					

#4- If your answer to 7b is positive (score more than 3), please indicate to what extent you think the following reasons lie behind not making any important changes to your accounting practices and policy. (1 is not important and 5 very important)

		1	2	3	4	5
a-	There are not enough qualified accountants who can make changes					
b-	There is no encouragement from the management to make changes					
c-	The cost associated with changes					
d-	others please specify					

#5- To regulate and establish a set of accounting standards a country can choose between two main approaches, a self regulation approach in which accounting is regulated by private organisation and government intervention in accounting regulation is kept to a minimum, as is the case in the UK and US, or a statutory approach in which a highly structured accounting system is adopted under government supervision with a limited role for private organisations, such as is the case in France and Germany. Please indicate which of these approaches you think is most suitable in developing accounting in Libya.

a- Self regulation approach

☐

b- Statutory approach

☐

#6- To what extent do you think the following factors have contributed to the development of accounting in Libya (1 is very limited and 5 very important).

		1	2	3	4
a-	Government's laws and regulation				
b-	Education of local accountants				
c-	The influence of foreign companies				
d-	Western colonisation				
e-	Libyan accounting profession				

Appendix (6)

Questionnaires to Company managers

Part 1 General background about the respondent

Position in the organisation:.....

#1. What is your professional qualification.....

2. Place of study

a- Libya

☐
☐

c- Arab countries

☐
☐

b- UK or US

d- others

3. For how many years have you been working in management

a- 1-5

☐
☐

c- More than 10

☐

b- 5-10

4. For how long has your company been in business

a- from one year to 10

☐
☐

c- More than 15

☐

b- 10-15

5. What is the number of employees in your company

a- Less than 100

☐
☐

c- More than 200

☐

b- From 101 to 200

6. What type of activity is your company engaged in.....

Part 2. General information about accounting practice and system

#1- To what extent do you think the following reasons lie behind the preparation of the accounting reports for your company (1 is not important at all and 5 very important)

		1	2	3	4	5
a-	Complying with the government's laws and regulations					
b-	Responding to the considerable interest from different users to receive accounting information					
c-	Providing useful and relevant information to people who have an interest, or are expected to have an interest in the company's affairs					
d-	Others (please specify)					

#2- How long after your company's financial period ends do you normally publish the financial reports

- a- Within the first month
- b- After three months
- c- After six months
- d- After one year
- e- More than two years

#3- Which of the following groups do you consider have the right to receive your company's accounting reports.

- a- Owners (Secretariat, SGPC)
- b- Other government agencies
- c- Local community (BPC)
- d- Tax authority
- e- Institute of Public Control
- f- Investors
- g- Employees (Union)
- h- Society at large (e.g., publishing accounting reports in newspapers)
- i- Consumers
- j- Suppliers
- k- General Statistical Office
- l- Creditors
- m- Others (please specify)

#4. Which of the following receive your company's accounting reports

- a- Owners (Secretariat, SGPC)
- b- Other government agencies
- c- Local community (BPC)
- d- Tax authority
- e- Institution of Public Control
- f- Investors
- g- Employees (Union)
- h- Society at large (e.g., publishing accounting reports in newspapers)
- i- Consumers
- j- Suppliers
- k- General Statistical Office
- l- Creditors
- m- Others (please specify)

#5- If your qualification is not in management, business administration, or accounting, have you joined any training programme for management or accounting

Yes	No

#6- Please indicate the extent to which you consider the following reasons as important in auditing your company's financial reports (1 not important at all and 5 is very important).

		1	2	3	4	5
a-	Complying with the legal requirements					
b-	Increasing the reliability of the company's financial reports					
c-	Others please specify					

Appendix (7)

Interviews Guidline

a- Questions to representatives from the Secretaries of Industrial, Economic and Planning, and Treasury, and Libyan Central Statistic Office and Libyan Institute of Public Control (IPC);

1. What kind of work do you do
2. Do you receive companies' financial statements
3. If yes, do you receive them in time.
4. If you don't receive them in time, does delay affect their usefulness
5. How do you perceive the readability and reliability of the current financial statements
6. Is there any explanation in the financial statement of how the figures have been calculated.
7. If your answer is yes, do you think it is enough
8. How do you perceive the usefulness of accounting information which is provided by the current financial statements of Libyan companies.
9. If you perceive it as low, what are the reason(s) you think lie behind that.
10. What kind of accounting information would you like to obtain from companies' financial statements.
11. Is it available to you in the current financial statements of Libyan companies.
12. If it is not available, how do you obtain the required information.
13. Do you think that the current financial statements provided by Libyan companies are readily understood by general users.
14. How effective do you think accounting in Libya would be if it was to be regulated by a general accounting plan in comparison to current self regulation (reference to France and Egypt).
15. What is the primary objective you perceive for Libyan public companies.
16. Do you think maximising profit is given high priority in the companies' objectives.
17. Under the current management and accounting systems, do you think there is adequate control over Libyan public companies.

18. If your answer is yes to the previous question, how did you became aware of that.

b- Questions to representatives from the Libyan Accounting and Auditing Association

1. To what extent do you think that changes in the accounting and auditing standards have been adopted following the establishment of LAAA.
2. According to your experience in auditing and preparing the accounting reports of some companies which were nationalised, to what extent do you think that companies' accounting systems have been changed following nationalisation.
3. Do you think that the status and role of the accounting profession is well recognised by the government and the public.
4. According to your experience in auditing the accounting statements of Libyan companies, how do you view the processes of obtaining necessary information to verify some company's accounts.
5. In the drafting of new laws or regulations that are related directly or indirectly to the accounting system in Libya, do you think consultation is made with the Libyan accounting profession.

